

# Best's Rating Report



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<b>QBE REGIONAL INSURANCE GROUP</b>	<b>A</b>
<b>NAU COUNTRY INSURANCE COMPANY</b>	<b>A</b>
<b>NORTH POINTE INSURANCE COMPANY</b>	<b>A</b>
<b>PRAETORIAN INSURANCE COMPANY</b>	<b>A</b>
<b>QBE REINSURANCE CORPORATION</b>	<b>A</b>
<b>QBE INSURANCE CORPORATION</b>	<b>A</b>
<b>QBE SPECIALTY INSURANCE COMPANY</b>	<b>A</b>

Wilmington, Delaware



**A**

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Associated With: QBE Insurance Group Limited

## QBE REGIONAL INSURANCE GROUP

Wilmington, DE  
One General Drive, Sun Prairie, WI 53596  
Web: www.qberegional.com

Tel: 608-837-4440

AMB#: 005658

Associated Ultimate Parent#: 085434

Fax: 608-837-0583

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The group's Financial Size Category is Class XI.

#### RATING UNIT MEMBERS

QBE Regional Insurance Group

(AMB# 005658):

AMB#	COMPANY	BEST'S FSR	POOL %
002416	General Casualty Co of WI	A	28.80
002370	Unigard Insurance Company	A	24.20
000676	National Farmers Union P & C	A	12.60
002007	Southern Guaranty Insurance Co	A	8.80
002418	Regent Insurance Company	A	8.70
004242	General Casualty Insurance Co	A	6.40
000543	Hoosier Insurance Company	A	3.90
004278	Unigard Indemnity Company	A	2.90
000770	Southern Pilot Insurance Co	A	1.70
002839	Blue Ridge Indemnity Company	A	1.00
002402	Southern Fire & Casualty Co	A	1.00
075594	Lantana Insurance Ltd	A	r
000317	North Pointe Insurance Co	A	r
000175	Stonington Insurance Company	A	r

#### RATING RATIONALE

**Rating Rationale:** The rating reflects QBE Regional Insurance Group's (QBE Regional) solid capital position, strong regional market presence, solid agency franchise and its strategic importance as one of the flagship platforms with QBE the Americas. Over the last several years there has been improved intercompany functionality, which has resulted in solid overall underwriting results despite some recent deterioration. Partially offsetting these positive rating factors are the somewhat volatile operating performance and the group's slightly elevated net premium leverage. The group's portfolio will benefit from increased diversification over the near term with the influx of additional program business from the former RenaissanceRe insurance companies acquired by QBE Insurance Group Limited early in 2011. The outlook is based on A.M. Best's view that the group will continue to generate favorable operating results, and maintain capitalization that supports its rating considering the aforementioned expectation of top-line premium growth from affiliated production sources.

Driven by conservative balance sheet management fundamentals, the group's capitalization has remained supportive of the rating despite significant parent company dividends paid annually. QBE Regional's five-year operating returns and profitability measures are generally in line with those of the industry composite. Results have been somewhat less favorable in the last two calendar years as the group has experienced catastrophe- and weather-related losses and modestly adverse loss reserve development on the commercial auto liability and commercial multi-peril lines of business, specifically. However, overall loss reserve development has been positive over the long term. The group continues to benefit from leveraging its strong agency relationships to manage its way through the current competitive market cycle.

**Best's Financial Strength Rating: A**

**Outlook: Stable**

#### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
10/12/11	A	08/28/08	A
10/01/10	A	06/06/07	A
09/30/09	A	01/05/07	A- u

#### KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data					
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
2006	1,638,352	1,580,239	192,933	119,697	3,465,251	1,081,999
2007	1,502,990	1,457,984	145,549	87,658	3,459,061	1,096,163
2008	1,356,326	1,025,559	270,059	152,151	2,583,482	750,647
2009	1,280,606	1,000,632	21,821	-26,468	2,524,215	744,650
2010	1,265,987	1,001,539	18,020	47,261	2,273,308	703,743

  

Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2006	95.2	4.3	12.2	26.8	1.5	3.7	145.5	104.3
2007	101.1	5.1	9.7	6.6	1.3	3.5	146.5	112.8
2008	89.7	3.6	22.8	29.3	1.4	3.8	141.1	78.3
2009	102.7	1.8	2.1	34.3	1.3	3.7	141.9	97.7
2010	100.4	0.9	1.8	9.0	1.4	3.6	144.9	91.6
5-Yr	97.6	3.4	10.3	...	...	...	...	...

(\* Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings. Within several financial tables of this report, this group is compared against the Commercial Casualty Composite.

#### BUSINESS REVIEW

QBE Insurance Group Limited (QBE) purchased Winterthur U.S. Holdings on May 31, 2007, and renamed it QBE Regional Companies (N.A.), Inc. QBE Regional Insurance Group (QBE Regional) is comprised of fourteen companies, led by General Casualty Company of Wisconsin. The group operates in a 33-state territory through eight regional offices. Historically, the group's operating efforts in North America were divided into the separate subgroups which had been acquired by Winterthur U.S. Holdings starting in 1982. After a series of acquisitions, mergers, sales and spin-offs which followed in the next two decades, the group consisted of two operating units, the Unigard Group and the General Casualty Group. Historically, these two operating units had operated with separate managerial teams while functioning under a unified set of strategic guidelines. Since January 2005, all of the group's business has been pooled together, with General Casualty Company of Wisconsin acting as the lead pool member. The current amalgamation incorporates some of QBE's most recent acquisitions and the group now represents a regional integration of the four main brands, General Casualty, Unigard, Farmers Union Insurance and QBE Agri under the single QBE Regional brand. The latter two brands are focused on providing insurance solutions for clients located in rural areas and those involved in a wide range of agricultural businesses, respectively. Back-office functions have been centralized for several years. Marketing, underwriting, claims handling, policyholder services and agency broker relations continue to be managed locally by the operating units via a network of regional and branch offices.

The group markets its products through nearly 1,700 independent retail agency partners with direct billing facilities, automation support, insurance rating applications and technology development available to its agents and an increasing number interfacing with the company, including access to claims servicing information. Approximately 75% of these independent agents have represented QBE for more than five years and 65% for more than ten years. QBE Regional continues to invest in information technology and upgrades as a means to automate and synchronize differences between subgroups, as well as reduce processing time, increase overall operating efficiencies, and enhance service to its independent agency partners. The group generally does business with small and medium-sized agents in suburban and rural areas. Additionally, the group also transacts business through a captive agency force of more than 500 (for business written by National Farmers Union P & C).

The group underwrites full coverage commercial and private passenger automobile, workers' compensation, commercial multiple peril, homeowners, general liability, umbrella and other miscellaneous coverages throughout the midwestern, northeastern, southeastern, northwestern and western states through the independent agency system. The group writes both commercial and personal lines business split approximately 65% and 35%, respectively. The commercial lines department targets "main street" business in mercantile, service, light manufacturing, office, contracting, hotel/motel and building

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owner classes. The group has historically written small to medium-sized commercial accounts, with an increased emphasis in recent years placed on larger accounts with premiums over \$150,000 due to market dislocation created by some large national commercial carriers with an emphasis on short-tail property coverages. These accounts now represent about 20% of the total commercial book of business. The personal lines book of business is split between automobile and homeowners. Earthquake insurance is also offered with a minimum 5-15% deductible that varies by state with California and Washington requiring a minimum 15% deductible. A marginal amount of the group's homeowner policies in California carry earthquake coverage.

## 2010 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Com'l MultiPeril.....	264,362	176,012	17.6	57.8	239,371
Auto Physical .....	169,071	146,928	14.7	57.2	8,219
Priv Pass Auto Liab.....	164,843	143,557	14.3	47.8	124,863
Workers' Comp.....	187,034	139,444	13.9	48.2	265,133
Comm'l Auto Liab.....	134,541	132,296	13.2	57.5	167,182
Homeowners.....	140,960	115,863	11.6	65.9	32,778
Oth Liab Occur .....	81,756	62,303	6.2	22.3	115,854
Farmowners .....	44,622	30,839	3.1	90.9	10,406
Inland Marine.....	30,476	20,458	2.0	33.2	1,583
All Other.....	48,321	33,838	3.4	49.2	10,580
Totals.....	1,265,987	1,001,539	100.0	53.8	975,969

**Geographical breakdown of direct premium writings (\$000):** Wisconsin, \$239,068 (18.9%); Illinois, \$125,562 (9.9%); California, \$109,820 (8.7%); Minnesota, \$97,915 (7.7%); Washington, \$84,109 (6.6%); other jurisdictions, \$609,514 (48.1%).

## FINANCIAL PERFORMANCE

**Overall Earnings:** The group has produced varied but mostly favorable operating results with the five-year pretax return on revenue being slightly below the industry composite average. However, the five-year total return on surplus more closely approximates the composite norm. Actions have been taken to address portions of the agribusiness book that have not performed well, specifically acquired portfolios. In addition, the group previously increased workers' compensation reserves, primarily on pre-1994 cases and the latest trends concerning reserve development on that line of business have been more positive. The decline in the group's invested asset base, driven by lower premium levels, combined with the prevailing low interest rate environment has resulted in considerably lower net investment income. In earlier years, investment income complemented underwriting gains to generate considerable net earnings.

Management seeks to improve the groups earnings based upon profitability initiatives, including non-renewal of certain undesirable business and modification of state-by-state appetite for certain lines of business, a comprehensive reinsurance program and conservative investment strategies. Further, as the more recently acquired segments become fully integrated as a part of the QBE enterprise, it is expected that operating synergies will continue to materialize.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2006	12.2	12.3	95.2	87.8	18.9	19.2	94.3	79.9
2007	9.7	6.8	101.1	91.6	20.6	15.7	94.7	78.8
2008	22.8	21.1	89.7	82.3	16.6	-1.0	98.9	83.7
2009	2.1	-1.3	102.7	99.1	14.9	11.2	100.0	85.2
2010	1.8	4.1	100.4	98.8	10.4	9.4	104.5	88.9
5-Yr	10.3	9.2	97.6	91.2	16.4	10.7	98.3	83.1

**Underwriting Income:** The group has experienced some underwriting variability over the last five years, influenced by catastrophe and weather-related losses, slight adverse loss reserve development on commercial automobile and workers' compensation business, asbestos and environmental losses, and California construction defect claims. The group's portfolio remains susceptible to severe weather losses and catastrophes in the

Northwest and Midwest operating territories but exposures are actively managed via underwriting guidelines and catastrophe risk modeling. Asbestos exposures relate to third-tier, non-manufacturing entities which were written, for the most part, prior to 1990. The environmental exposures related to homeowners' oil, dry cleaning and other small commercial exposures, have seen fewer new claims emerge. The defect claims almost exclusively reside in California and primarily relate to policies written in the late 1980s to early 1990s, at which time the group began exiting the business.

To improve underwriting profitability, management implemented pricing adequacy initiatives on both commercial and personal lines, restructured commission payouts, reduced catastrophe exposure and enhanced loss control procedures. In particular, coastal exposures have been reduced through implementation of an individualized state-by-state approach to writing business that has allowed significant improvements in limiting these exposures. The group also targets the less catastrophe-exposed Midwestern states, with approximately one-fifth of net writings in Wisconsin. In addition, homeowners business has been reduced in storm-prone Midwestern states and efforts have been made to curtail earthquake losses by capping individual exposure per policy. The workers' compensation portfolio has been reviewed including the identification of the worse performing 20% of accounts with action plans implemented to address noted problems.

The group's five-year combined ratio remains slightly better than the industry composite average. Following the 2009 year when the reported combined ratio reflected approximately two points of adverse development on the prior year's workers' compensation reserves, overall reserve development had a neutral impact on underwriting results in 2010. The group's underwriting expense ratio is a few percentage points higher than the peer composite, due primarily to a greater decline in written premium than in other (non-commission) underwriting expenses. The costs associated with integrating some of the newly acquired businesses into the group have had a slight impact on the expense ratio as well. Still, despite increased employee benefit costs and technology investments, and costs related to geographic expansion, the group has maintained its underwriting expenses at reasonable levels. Further improvements are being sought through increased efficiencies, cost reductions and some expected synergies.

QBE Regional will continue to employ a conservative, overall operating strategy with emphasis on being a premier agency company, while maintaining an efficient cost infrastructure, and avoiding litigious geographic areas. To help improve long-term profitability, management has identified agency partners with unprofitable books of business with the group and began terminating these agency relationships during the second quarter of 2011 with the majority of them being jettisoned by the end of the year. In addition, near and long-term profitability will also be impacted by the quality of the programs the group will write as a result of the acquisition of the U.S. operations of RenaissanceRe, which includes some program business that QBE management has deemed desirable enough to maintain as part of the program business portfolio written by QBE Regional's member companies.

## UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2006	76,203	51.9	11.9	63.8	16.1	14.5	30.6	0.8	95.2
2007	-1,357	55.1	12.7	67.8	16.7	15.5	32.2	1.1	101.1
2008	178,062	43.1	10.8	53.9	12.4	21.9	34.3	1.5	89.7
2009	-20,153	55.4	9.7	65.1	12.8	23.1	35.9	1.7	102.7
2010	-2,925	53.8	12.5	66.4	12.4	20.0	32.4	1.7	100.4
5-Yr	...	51.9	11.6	63.5	14.5	18.3	32.8	1.3	97.6

**Investment Income:** Since QBE acquired the group, there has been a shift in the investment strategy. Under QBE's oversight the group's defined investment policy guidelines have employed comparative portfolio and benchmarking analysis, asset/liability management, and non-speculative hedging techniques to preserve capital and achieve targeted returns. Cash and cash equivalents make up the second largest percentage allocation in the investment portfolio after fixed income maturities, which are predominantly corporate bonds and U.S. Treasuries. Investment in common stocks decreased substantially in 2010 reflecting a change in the equity investment portfolio management and a change in investment strategy within QBE the Americas.

The group's investment yield has typically lagged the composite. The gap has widened somewhat in 2010; however, preservation of capital has been more of the focus in terms of investment strategies employed.

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## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Growth (%)	Inv. Yield (%)
2006	116,763	-2,350	8,411	19.5	4.3	4.5	9.2	4.8
2007	143,090	-12,855	-13,912	22.5	5.1	4.1	9.6	5.0
2008	87,831	-56,249	42,962	-38.6	3.6	3.0	-5.4	4.7
2009	36,856	-42,251	16,818	-58.0	1.8	0.6	-9.1	4.4
2010	16,843	28,129	-17,704	-54.3	0.9	1.4	2.3	4.4
5-Yr	...	...	...	-16.8	3.4	3.0	1.0	4.7

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2010 Inv. Assets (\$000)		—% of Invested Assets—		Annual % Change
	Total	to Stmt	2010	2009	
Long-term bonds.....	827,643		45.4	38.0	10.5
Stocks .....	35,048		1.9	11.6	-84.6
Affiliated Investments.....	100,303		5.5	5.4	-6.2
Other Inv Assets.....	859,782		47.2	45.0	-3.2
Total.....	1,822,776		100.0	100.0	-7.6

## 2010 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val Val (%)	Avg. Maturity (Yrs)	Class		Struc. Secur. (%)	Struc. Secur. (% of PHS)
				1-2 (%)	3-6 (%)		
Governments .....	39.1	1.5	1.3	100.0	...	...	...
States, terr & poss..	0.8	3.7	2.7	100.0	...	...	...
Special Revenue.....	0.1	1.9	3.0	100.0	...	...	...
Corporates.....	60.1	0.5	2.7	100.0	...	...	...
Total all bonds..	100.0	0.7	2.1	100.0	...	...	...

## CAPITALIZATION

**Capital Generation:** The group's surplus position has decreased over the past five years and is largely driven by parental dividend payouts, with the largest taking place in 2008. The extraordinary shareholder dividend in that year was used to facilitate acquisitions, partially fund debt service requirements as well as provide a normal dividend to QBE. Dividend payouts are expected to continue, but it is anticipated that they will be more in line with the lower payouts in 2009 and 2010. Through the first half of 2011, the group paid a \$20.0 million dividend to its parent. Although underwriting losses have led to lower pre-tax operating income over the last two calendar years, pretax profits have been consistently generated and have been the backbone of the group's capital generation.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Pretax Operating Income	Source of Surplus Growth				Change in PHS	PHS Growth (%)
		Total Inv. Gains	Net Contrib. Capital	Other. Net of Tax			
2006	192,933	6,061	-59,750	-66,228	73,017	7.2	
2007	145,549	-26,767	-59,900	-44,718	14,164	1.3	
2008	270,059	-13,287	-471,074	-131,215	-345,516	-31.5	
2009	21,821	-25,434	-70,894	68,508	-5,997	-0.8	
2010	18,020	10,425	-52,000	-17,352	-40,907	-5.5	
5-Yr	648,383	-49,001	-713,617	-191,003	-305,239	...	

**Overall Capitalization:** The group's risk-adjusted capitalization is solid and supportive of the current rating based on Best's Capital Adequacy Ratio (BCAR). The capital position is derived from the group's favorable but somewhat varied operating performance. The group's historically elevated underwriting leverage has been primarily driven by net premium leverage that is roughly double the composite average. Reserve leverage has remained consistent over the recent five-year period and is in line with the composite.

## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	—% of PHS—			—Dividend Requirements—		
		Cap. Stock/Contrib. Cap.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2006	1,081,999	39.0	...	61.0	-59,750	31.0	49.9
2007	1,096,163	38.6	...	61.4	-59,900	41.2	68.3
2008	750,647	51.2	...	48.8	-281,000	104.1	184.7
2009	744,650	51.6	1.9	46.5	-72,500	332.2	-99.9
2010	703,743	54.6	0.8	44.6	-52,000	288.6	110.0

## LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2006	1.5	1.4	3.7	3.9	0.9	1.6	3.3	4.3
2007	1.3	1.4	3.5	3.7	0.8	1.5	3.1	4.0
2008	1.4	1.5	3.8	4.8	0.9	1.7	3.4	4.4
2009	1.3	1.4	3.7	4.6	0.8	1.5	3.0	3.8
2010	1.4	1.4	3.6	4.7	0.7	1.5	2.9	3.8

Current BCAR: 215.9

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	—DPW—		—GPW—		—NPW—		—NPE—	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2006	1,638,352	0.2	1,654,875	0.1	1,580,239	-0.7	1,579,571	-1.7
2007	1,502,990	-8.3	1,537,249	-7.1	1,457,984	-7.7	1,505,921	-4.7
2008	1,356,326	-9.8	1,366,430	-11.1	1,025,559	-29.7	1,186,756	-21.2
2009	1,280,606	-5.6	1,287,534	-5.8	1,000,632	-2.4	1,021,515	-13.9
2010	1,265,987	-1.1	1,286,479	-0.1	1,001,539	0.1	1,006,468	-1.5
5-Yr CAGR	...	-5.0	...	-4.9	...	-8.8	...	-8.9
5-Yr Chg	...	-22.6	...	-22.2	...	-37.1	...	-37.4

**Reserve Quality:** The group's loss reserves have trended downward over the last three years, in line with the declining premium base. Loss-related payments have also helped drive the decline in the group's reserve level. Overall prior year loss reserve development in 2010 was neutral with increases on the commercial automobile liability and commercial multi-peril lines of business offset by favorable development on general liability (occurrence), property and workers' compensation lines. The previous calendar year, management determined that the prior year's workers' compensation reserves needed to be increased by approximately \$24.0 million. That adverse development was only partially offset by favorable development on most other lines of coverage resulting in approximately \$20.5 million in adverse development for the year.

Due to policies written decades ago, the group has some exposure to asbestos claims. The group's asbestos exposure relates to third-tier, non-manufacturing entities with a limited number of policyholders remaining. IBNR reserves remain established to cover additional exposure on both known and unasserted claims based on the latest completed actuarial study.

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/10	Unpaid Res. to Develop. (%)
2005	1,351,823	1,280,501	-5.3	-7.1	79.7	217,100	17.0
2006	1,387,368	1,301,385	-6.2	-7.9	82.4	274,869	21.1
2007	1,427,001	1,296,534	-9.1	-11.9	86.1	360,882	27.8
2008	1,037,874	1,065,651	2.7	3.7	89.8	492,537	46.2
2009	1,012,991	1,014,258	0.1	0.2	99.3	654,222	64.5
2010	912,919	912,919	...	...	90.7	912,919	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Unpaid Reserves @12/10	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2005	502,645	454,928	-9.5	33,242	60.0	91.8
2006	521,477	475,413	-8.8	57,769	62.5	93.9
2007	461,635	438,277	-5.1	86,013	64.9	98.3
2008	336,332	340,222	1.2	131,655	68.6	104.3
2009	292,000	286,040	-2.0	161,685	63.6	101.2
2010	258,697	258,697	...	258,697	66.0	100.1

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## ASBESTOS & ENVIRONMENTAL (A&E) RESERVE ANALYSIS

Year	Company					Industry Composite				
	Net A&E Reserve (\$000)	Reserve Retention (%)	Reserve Mix (%)	Survival Ratio (3yr)	Comb Ratio Impact (1yr)	Comb Ratio Impact (3yr)	Survival Ratio (3yr)	Comb Ratio Impact (1yr)	Comb Ratio Impact (3yr)	
2006	55,655	79.1	63.0	...	0.2	...	...	0.5	...	
2007	85,446	81.9	78.5	...	2.5	...	...	0.7	...	
2008	81,906	80.0	76.7	9.9	0.3	1.1	7.4	0.3	0.5	
2009	75,930	81.1	95.0	10.4	0.0	1.1	7.7	0.6	0.5	
2010	74,310	83.9	72.9	12.2	0.3	0.2	7.8	0.7	0.5	

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company			Industry Composite		
	Ceded Reins. Total	Bus. Ret. (%)	Reins. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. to PHS (%)
2006	236,429	95.5	15.0	21.9	82.7	73.4
2007	217,387	94.8	12.9	19.8	83.5	65.4
2008	754,945	75.1	56.6	100.6	83.1	73.6
2009	708,645	77.7	59.0	95.2	81.4	64.6
2010	718,755	77.9	63.8	102.1	79.9	60.8

## 2010 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	1,012,474	356,366	656,646	...	2,025,486
Foreign Affiliates.....	186,849	37,010	91,247	...	315,106
US Insurers.....	32,254	34,373	6,235	61	72,923
Pools/Associations.....	7,420	36	672	...	8,128
Other Non-US.....	39,816	13,151	5	...	52,972
Total (ex US Affils).....	266,339	84,570	98,159	61	449,129
Grand Total.....	1,278,813	440,936	754,805	61	2,474,615

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company					Industry Composite	
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds
2006	...	3.0	0.0	23.8	26.8	6.9	6.2
2007	...	3.7	...	2.9	6.6	5.4	5.9
2008	...	4.3	...	25.0	29.3	16.0	5.5
2009	...	3.7	...	30.6	34.3	14.4	6.0
2010	...	4.0	...	5.0	9.0	14.3	7.1

## LIQUIDITY

The group's current and overall liquidity measures closely approximate industry composite averages. Recent underwriting and operating cash flows have been negatively impacted by loss and underwriting expense-related payments that have outpaced collected premiums. However, the group maintains a conservative investment philosophy which allocates a substantial amount of the overall portfolio to cash and cash equivalents. The composition of invested assets emphasizing short-term fixed income securities in addition to the cash and cash equivalents drives the group's excellent quick liquidity, which exceeds the composite norm by a considerable margin. The portfolio's average fixed-income maturity is short at approximately two years.

## LIQUIDITY ANALYSIS

Period Ending	Company			Industry Composite		
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)
2006	49.6	116.0	145.5	10.8	23.7	109.2
2007	115.1	120.8	146.5	7.5	21.8	111.3
2008	85.6	106.0	141.1	10.5	19.0	104.6
2009	81.1	106.5	141.9	8.7	21.3	110.8
2010	79.1	109.2	144.9	10.1	21.2	111.2

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company					Industry Composite	
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)
2006	93,109	66,560	166,378	106.3	104.3	113.1	125.0
2007	78,525	189,813	1,805,066	105.4	112.8	111.1	121.2
2008	-391,915	-331,715	-917,121	73.4	78.3	100.4	111.8
2009	-56,957	-25,205	-329,494	94.8	97.7	98.4	109.4
2010	-131,594	-93,615	-26,761	88.2	91.6	96.5	108.3

## HISTORY

In 1982, Winterthur U.S. Holdings, Inc., a Delaware corporation and a wholly owned subsidiary of Winterthur Swiss Insurance Company of Winterthur, Switzerland, was formed. That same year the Republic Companies Group was acquired. In slow succession, the holding company began to acquire regional insurers throughout the U.S.: 1988 — Southern Guaranty Insurance Company, 1990 — General Casualty Group, 1993 — Unigard Insurance Company. In 1997, the Blue Ridge Group was spun off from the Republic Companies Group and was merged into the General Casualty Group in 2001. In 2003, the Republic Companies Group was sold. In 2004, Southern Guaranty Group was merged into the General Casualty Group.

On December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company to AXA. In January 2007, AXA entered into a definitive agreement to sell Winterthur U.S. Holdings, Inc., and its insurance operating companies to QBE Holdings, Inc. On May 31, 2007, that transaction closed, and Winterthur U.S. Holdings, Inc. was renamed QBE Regional Companies (N.A.), Inc.

## MANAGEMENT

The administration of the companies that are a part of QBE Regional is under the direction of the head of regional insurance Mr. Tony Cid. Mr. Cid was appointed Head of Regional Insurance in 2011.

## REINSURANCE

QBE the Americas purchases its reinsurance for its operating entities. QBE the Americas buys a conservative amount of reinsurance coverage for all of its operating entities to mitigate the potential for shock losses, which could weaken the balance sheet.

## CONSOLIDATED BALANCE SHEET

(at December 31, 2010)

### ADMITTED ASSETS (\$000)

	12/31/10	12/31/09	'10%	'09%
Bonds.....	827,643	749,315	36.4	29.7
Common stock.....	35,048	228,061	1.5	9.0
Cash & short-term invest.....	826,356	853,117	36.4	33.8
Real estate, investment.....	28,094	27,608	1.2	1.1
Other non-affil inv asset.....	...	300	...	0.0
Investments in affiliates.....	44,891	47,247	2.0	1.9
Real estate, offices.....	55,412	59,738	2.4	2.4
Total invested assets.....	1,817,443	1,965,385	79.9	77.9
Premium balances.....	346,824	343,955	15.3	13.6
Accrued interest.....	5,332	7,206	0.2	0.3
All other assets.....	103,709	207,668	4.6	8.2
Total assets.....	2,273,308	2,524,215	100.0	100.0

### LIABILITIES & SURPLUS (\$000)

	12/31/10	12/31/09	'10%	'09%
Loss & LAE reserves.....	975,969	1,074,798	42.9	42.6
Unearned premiums.....	459,230	464,159	20.2	18.4
Conditional reserve funds.....	1,060	1,280	0.0	0.1
All other liabilities.....	133,305	239,328	5.9	9.5
Total liabilities.....	1,569,565	1,779,565	69.0	70.5
Capital & assigned surplus.....	389,557	398,228	17.1	15.8
Unassigned surplus.....	314,187	346,422	13.8	13.7
Total policyholders' surplus.....	703,743	744,650	31.0	29.5
Total liabilities & surplus.....	2,273,308	2,524,215	100.0	100.0

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## CONSOLIDATED SUMMARY OF 2010 OPERATIONS (\$000)

Statement of Income	12/31/10	Funds Provided from Operations	12/31/10
Premiums earned.....	1,006,468	Premiums collected.....	982,714
Losses incurred .....	541,681	Benefit & loss related pmts	615,626
LAE incurred .....	126,277		
Undrw expenses incurred		LAE & undrw expenses paid	481,614
Other expense incurred...	324,602		
Div to policyholders .....	-234	Other income/expense ...	...
	17,068	Div to policyholders .....	17,068
Net underwriting income	-2,925	Undrw cash flow .....	-131,594
Net investment income .....	16,843	Investment income.....	23,064
Other income/expense ...	4,103	Other income/expense ...	4,103
		Pre-tax cash operations	
Pre-tax oper income ...	18,020		
Realized capital gains.....	28,129		
Income taxes incurred .....	-1,112	Income taxes pd (recov)...	-10,813
Net income.....	47,261	Net oper cash flow.....	-93,615

## KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data				Profitability			Leverage			Liquidity	
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2006	559,765	192,378	80,051	51,550	61.3	10.2	41.8	4.5	1.6	2.8	181.9	213.1
2007	740,317	330,105	150,349	96,736	56.8	16.9	46.1	4.3	1.7	2.6	209.2	168.3
2008	1,155,434	555,250	70,632	44,820	88.9	6.6	12.8	4.6	2.4	4.7	142.7	206.8
2009	953,810	353,302	146,699	95,946	61.1	3.7	41.2	3.8	1.2	2.2	202.9	62.2
2010	885,876	368,585	132,278	88,030	65.4	1.7	35.9	...	1.3	1.9	247.1	111.6
5-Yr	69.8	5.8	32.3	...	...	...	...	...	...	...	...	...

(\* ) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Property Composite.

## Ultimate Parent: QBE Insurance Group Limited

### NAU COUNTRY INSURANCE COMPANY

7333 Sunwood Drive, Ramsey, MN 55303-5119

Web: [www.naucountry.com](http://www.naucountry.com)

Tel: 763-427-3770

AMB#: 011098

Ultimate Parent#: 085434

Fax: 763-427-6473

NAIC#: 25240

FEIN#: 42-1265237

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The company's Financial Size Category is Class IX.

### RATING RATIONALE

**Rating Rationale:** The rating reflects NAU Country's improved capitalization, steady underwriting performance, strong agency relationships and management's extensive experience with the federally subsidized multiple peril crop insurance (MPCI) program. The rating also recognizes the additional balance sheet protection provided through an aggregate stop loss reinsurance treaty. NAU Country was acquired on July 1 of 2010 by QBE Insurance Group Limited (QBE). The new parent company offers NAU Country considerable financial flexibility through its proven ability to access the capital markets. Partially offsetting these positive factors is the company's potential for underwriting volatility due to operational risk from changes in the agricultural marketplace or further changes in the Standard Reinsurance Agreement (SRA). The company's geographical diversification insulates it somewhat from the unfavorable impact of results in high frequency / low severity areas of the country so the change in the SRA for 2011 and beyond is not expected to have a particularly negative impact on the company's results. The outlook reflects A.M. Best's expectation that NAU Country will continue to produce favorable operating results over the near term, particularly in light of the influx of business related to the recent acquisition by QBE of the U.S. operations of RenaissanceRe, which included a portfolio of MPCI business.

**Best's Financial Strength Rating: A**

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
10/12/11	A	03/16/09	A-
10/01/10	A	11/30/07	A-
04/20/10	A- u	11/10/06	A-

### BUSINESS REVIEW

NAU Country Insurance Company (NAU Country) is a wholly-owned subsidiary of NAU Holding Company, LLC, both domiciled in Minnesota. On July 1, 2010, the company was acquired by QBE Holdings, Inc., a subsidiary of QBE Insurance Group Limited [ASX: QBE.AX], an Australian based insurance and reinsurance group with operations worldwide.

NAU Country writes multiple peril crop insurance (MPCI) on growing crops under a federal crop insurance program, other named-peril crop and crop-hail insurance coverages. In recent years, NAU Country has succeeded in diversifying its geographic spread of risk and is now well positioned throughout the Midwest and California. The company generates its business through independent agents who work with the company's strategically placed branch and regional offices. Major branches are located in Eau Claire, WI; Woodland, CA; Ramsey, MN; Fargo, ND; Topeka, KS; Missoula, MT; and Council Bluffs, IA with five other regional offices covering the company's operating territory.

MPCI is a federally subsidized farm risk management program under the auspices of the Federal Crop Insurance Corporation (FCIC) and administered by the FCIC's Risk Management Agency (RMA). There are three different types of coverages protected by the FCIC: multiple peril crop insurance (MPCI), crop revenue coverage (CRC) and catastrophe protection. The program is designed to encourage farmers to share, through premium payments, in the federal government's risk management system. The current program, authorized by Congress in 1996 to provide premium subsidies and reinsurance protection on eligible crop insurance contracts, is administered through a Standard Reinsurance Agreement (SRA) contract between individual insurers and the FCIC through the RMA. The SRA is constant among all contract holders and is periodically revised by the RMA. The 2008 Farm Bill enacted by Congress allowed the RMA to renegotiate the RMA for the 2011 crop year and beyond. The changes in the latest contract were designed to reduce the overall expense to the government by decreasing administrative and operating (A&O) expense reimbursements by aligning the subsidies to the actual delivery costs of insurers, and by increasing the government's share of underwriting gains. Underwriting gains for MPCI insurers are therefore somewhat more constrained, with the A&O subsidies reduced and also requires a quota share cession of the company's cumulative underwriting gain or loss (following all other FCIC reinsurance) back to the FCIC. Conversely, the revised agreement also raises the ceiling on the amount of business that can be placed into the Assigned Risk Fund (see below for more detail on the FCIC's funds) for a number of high risk planting states. The SRA for all companies in the Federal program is currently under review with further constraints anticipated. The A&O subsidy is paid to offset a portion of the expense of providing this government sponsored insurance program. This subsidy had trended downward for several years before implementation of the new SRA.

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MPCI, which is a buy-up program, provides farmers with yield coverage for crop damage from natural perils. The government subsidizes a portion of the actuarially determined premium, allowing farmers to purchase (buy-up) additional protection for growing crops. Farmers purchasing MPCI insurance choose to insure between 50% and 85% of their normal production at varying price levels. Farmers also choose whether to value their insured production at the FCIC's full estimated market price or at a percentage of the full price. Business is underwritten based upon historical and estimated future risk factors and is placed in one of two funds (as per the new SRA, down from seven potential funds, in total as part of the old SRA), the Commercial Fund and the Assigned Risk Fund (for the riskiest policies). The funds under the prior SRA were the Commercial Fund, the Developmental Fund and the Assigned Risk Fund, with both the Developmental and Commercial funds having three sub funds for three different types of policies, hence the former total of seven potential funds to which crop insurers could allocate policies. Crops that were expected to be most profitable were generally placed in the Commercial Fund which provided the largest opportunity for underwriting gain, but provided the least amount of reinsurance protection. The Developmental Fund was used for crops that produced less predictable results and provided an intermediate level of profit and loss potential for the company. The Assigned Risk Fund was and generally still is reserved for those crops that have the highest loss potential. This fund has the least amount of profit and loss potential. Crop Revenue (CRC) and Revenue Assurance (RA) coverages are extensions of the MPCI program which provides farmers with protection from revenue loss caused by changes in crop prices, low yields, or a combination of the two. Crop hail and named peril coverages are not protected by the FCIC and generally produce more volatile results.

**Affiliations:** The company is a member of the National Crop Insurance Services, Overland Park, Kansas and the American Association of Crop Insurers, Washington, D.C.

## 2010 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Allied Lines .....	885,876	368,585	100.0	59.3	32,640
All Other .....	...	...	...	...	11
Totals .....	885,876	368,585	100.0	59.3	32,651

**Geographical breakdown of direct premium writings (\$000):** North Dakota, \$151,641 (17.1%); Nebraska, \$87,318 (9.9%); Minnesota, \$76,096 (8.6%); Illinois, \$69,539 (7.8%); Iowa, \$67,412 (7.6%); California, \$63,728 (7.2%); Indiana, \$62,182 (7.0%); South Dakota, \$54,238 (6.1%); Kansas, \$49,463 (5.6%); other jurisdictions, \$204,260 (23.1%).

## FINANCIAL PERFORMANCE

**Overall Earnings:** NAU Country has produced pretax operating earnings every year since 2001, with the exception of a small loss of less than \$1.0 million in 2002. The company's strong returns on revenue (ROR) and surplus (ROE), which comfortably exceed the commercial property composite averages, have been primarily driven by proven underwriting acumen, a diversified portfolio and effective exposure management through proper fund assignments. Investment income has been a modest contributor to operating income due to the relatively low level of invested assets. Approximately 70% of NAU Country's year-end assets are held as receivables, primarily due from the FCIC and collected in the first quarter of the following year. Per the 2011 standard reinsurance agreement (SRA) with the government, the receivable with FCIC will be settled in the fourth quarter of the following year. Since MPCI premium rates are set by the FCIC and are constant among all SRA holders, companies must compete on service and commissions. In 2010 and prior years, increasing commissions and thereby market share, placed downward pressure on margins. Going forward, the 2011 SRA placed caps on the commissions that can be paid to the agency, which forces companies to compete on service. There is some inherent volatility in providing MPCI coverage stemming from weather-related losses, as reflected in the smaller operating profit recorded in 2008 due to reduced underwriting profitability; however, the company's results improved markedly in the succeeding calendar years.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2006	41.8	55.8	61.3	59.0	25.6	16.4	86.5	74.7
2007	46.1	60.4	56.8	54.0	29.4	13.0	82.3	70.0
2008	12.8	19.2	88.9	87.7	13.0	-10.6	97.9	87.3
2009	41.2	37.1	61.1	59.6	27.8	18.2	81.2	71.7
2010	35.9	30.4	65.4	64.8	30.0	12.4	86.1	69.9
5-Yr	32.3	36.8	69.8	68.2	25.1	9.9	86.9	74.8

**Underwriting Income:** Underwriting operations have generated significant gains since 2003 as NAU Country continues to benefit from broad geographic diversification, which somewhat mitigates the potential impact of adverse, localized weather events on underwriting results. Underwriting results have been very good the last two calendar years as MPCI business has been very profitable. NAU Country's crop-hail business produced a higher than normal loss ratio in 2010, but makes up less than 10% of the company's overall premium base so this did not greatly affect operating results. This strong year followed a rebound year in 2009 as commodity prices stabilized with good crop growing conditions throughout the company's operating territories. Claim frequency and average severity had been impacted during 2008 by the run up in commodity prices through July followed by a material drop in such prices by year end. Also impacting underwriting results during the year, albeit to a lesser extent, was the impact from Midwest flooding during the spring but farmers were able to replant most acreage in time for a positive growing season. The net result was a reduction in underwriting income but still a favorable year, overall.

Gross premium volume decreased 7.1% in 2010 due to a decrease in commodity prices, continuing the trend from 2009. In the preceding years, gross premium volume had been growing as the company successfully targeted a more geographically diverse book of MPCI business, ramped up infrastructure to handle a significantly larger volume of business and, in 2008, experienced unexpectedly high growth in premium volume due to the aforementioned spike in commodity prices. These factors, along with increased retention of business written, drove up net premium volume as well. Due to the combination of rising commodity prices and the acquisition of Renaissance Re, A.M. Best expects NAU Country's premium volume to continue increasing through the end of 2011.

## UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio
		Pure Loss	Loss & LAE	Net Comm.	Other Exp.	Total Exp.			
2006	74,189	60.7	5.7	66.4	-18.8	13.7	-5.1	...	61.3
2007	140,937	57.3	3.6	60.9	-15.2	11.2	-4.0	...	56.8
2008	61,380	91.1	3.1	94.2	-10.6	5.3	-5.3	...	88.9
2009	138,410	60.6	4.3	64.9	-14.0	10.2	-3.8	...	61.1
2010	127,304	59.3	5.8	65.1	-10.2	10.6	0.4	...	65.4
5-Yr	...	69.1	4.3	73.4	-12.9	9.3	-3.6	...	69.8

## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)
2006	4,333	-1	254	186.7	10.2	10.8	14.7	3.1
2007	9,337	106	-158	115.5	16.9	16.8	18.2	3.4
2008	6,578	1,833	-3,510	-29.6	6.6	4.9	-3.6	3.4
2009	5,322	-1,926	1,787	-19.1	3.7	3.6	-9.5	3.0
2010	2,283	1,798	1,404	-57.1	1.7	4.0	76.6	4.9
5-Yr	...	...	...	2.9	5.8	6.2	18.2	3.6

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## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2010 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
		2010	2009	
Long-term bonds .....	57,664	48.5	93.5	-61.0
Stocks .....	...	...	7.1	-99.9
Other Inv Assets.....	61,255	51.5	-0.6	999.9
Total.....	118,919	100.0	100.0	-24.7

## 2010 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class 1-2 (%)	Class 3-6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Corporates.....	75.0	0.4	2.5	100.0	...	...	...
Total all bonds..	100.0	0.8	2.7	100.0	...	...	...

## CAPITALIZATION

NAU Country's underwriting, investment and reinsurance risks are fully supported by its overall level of capitalization, as measured by Best's Capital Adequacy Ratio (BCAR). This is reflective of the moderately elevated level of underwriting leverage and strong credit quality of its reinsurance partners.

With higher prevailing crop and commodity prices, underwriting leverage is likely to be slightly elevated by the end of 2011. A spate of weather-related events during the early part of the year led to a later planting season, thus producers, on average, will complete their harvest activities later than normal, resulting in claims being paid a little later. Underwriting leverage, fell in 2010 as it did in 2009, returning to historic norms after increasing significantly in 2008. Absent the extraordinary \$91 million in dividend payments to its parent that was planned as part of NAU Country's acquisition by QBE, surplus would have increased significantly in 2010, and resulted in a more conservative underwriting leverage position.

Declining commodity prices offset growth in 2009 as surplus increased considerably. Underwriting leverage had spiked materially at the end of 2008, leaving NAU Country with elevated leverage relative to other MPCCI writers, due to a significant increase in premium volume driven by a highly volatile market in commodity prices along with a reduced level of earnings-driven surplus growth. However, a sizable portion of the reported underwriting leverage, both ceded and net, was due to the unique nature of statutory MPCCI accounting requirements. Receivables are recorded as due from the FCIC as well as from the company's commercial reinsurers at year end. While the company's reinsurance contracts all contain the right of offset, statutory accounting rules do not allow for the netting of receivables against payables. Furthermore, the vast majority of the receivables and payables are cleared by end of the first quarter of the following year. As stated earlier, the timing of this payment will move to the fourth quarter in the 2012 calendar year. As a result, the elevated underwriting leverage recorded at the end of that year was a short term phenomenon as is typically the case. Also, the underwriting risk associated with MPCCI exposures is significantly negated due to the nature of the SRA reinsurance contract with the FCIC.

The company's more than 350% growth in surplus over the last five years has been primarily due to operating earnings, and to a lesser extent, capital infusions. The capital appreciation has been achieved despite almost \$154 million in parent company dividends paid out over the last four years, including the \$91 million in 2010.

NAU Country's new parent maintains considerable financial flexibility although NAU Country may still be expected to help the parent meet its debt service requirements through declared dividends.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Pretax Operating Income	Source of Surplus Growth				Change in PHS	PHS Growth (%)
		Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax			
2006	80,051	254	5,000	-28,266	57,038	88.7	
2007	150,349	-51	-20,500	-52,856	76,942	63.4	
2008	70,632	-1,677	-10,500	-25,270	33,185	16.7	
2009	146,699	-139	-32,000	-50,986	63,574	27.5	
2010	132,278	3,202	-90,679	-46,574	-1,773	-0.6	
5-Yr	580,008	1,589	-148,679	-203,951	228,966	...	

## QUALITY OF SURPLUS (\$000)

Year-End PHS	% of PHS			—Dividend Requirements—		
	Cap. Stock/Contrib.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2006	121,379	38.6	...	61.4	...	...
2007	198,320	23.6	...	76.4	-20,500	13.6
2008	231,506	20.2	...	79.8	-10,500	14.9
2009	295,080	15.9	...	84.1	-32,000	21.8
2010	293,307	16.0	...	84.0	-90,679	68.6

## LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2006	1.6	0.2	2.8	6.6	0.4	0.3	1.2	1.9
2007	1.7	0.2	2.6	5.0	0.4	0.3	1.2	1.9
2008	2.4	1.1	4.7	8.7	0.5	0.4	1.5	2.4
2009	1.2	0.2	2.2	4.6	0.4	0.3	1.3	2.0
2010	1.3	0.1	1.9	4.0	0.4	0.3	1.3	1.9

Current BCAR: 318.3

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	—DPW—		—GPW—		—NPW—		—NPE—	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2006	559,765	151.3	585,674	162.2	192,378	73.2	191,332	80.5
2007	740,317	32.3	754,390	28.8	330,105	71.6	326,260	70.5
2008	1,155,434	56.1	1,175,329	55.8	555,250	68.2	552,226	69.3
2009	953,810	-17.5	961,936	-18.2	353,302	-36.4	356,163	-35.5
2010	885,876	-7.1	894,877	-7.0	368,585	4.3	368,400	3.4
5-Yr CAGR	...	31.8	...	32.0	...	27.1	...	28.3
5-Yr Chg	...	297.8	...	300.6	...	231.8	...	247.6

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/10	Unpaid Res. to Develop. (%)
2006	26,283	28,165	7.2	1.6	14.7	49	0.2
2007	44,387	67,237	51.5	11.5	20.6	52	0.1
2008	254,563	261,659	2.8	3.1	47.4	277	0.1
2009	60,377	59,381	-1.6	-0.3	16.7	727	1.2
2010	29,991	29,991	...	...	8.1	29,991	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Unpaid Reserves @12/10	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2006	26,241	28,222	7.5	30	65.6	60.5
2007	43,782	66,660	52.3	3	67.6	63.6
2008	253,587	261,098	3.0	225	90.2	84.8
2009	56,887	56,433	-0.8	450	63.1	59.4
2010	29,264	29,264	...	29,264	61.9	62.3

**Reinsurance Utilization:** Since January 1, 2003, MPCCI (after substantial reinsurance through the FCIC), named-peril insurance, and crop/hail insurance has been substantially reinsured by commercial reinsurers.

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Ceded Reins. Total	Company		Industry Composite			
		Ret. (%)	Recov. to PHS (%)	Ceded Reins. to PHS (%)	Ret. (%)	Recov. to PHS (%)	Ceded Reins. to PHS (%)
2006	461,225	32.8	56.0	380.0	44.5	43.8	72.7
2007	480,078	43.8	28.1	242.1	46.1	36.9	67.1
2008	919,903	47.2	129.5	397.4	44.4	53.1	94.7
2009	710,065	36.7	34.4	240.6	50.1	34.5	66.9
2010	606,727	41.2	30.7	206.9	55.5	29.0	57.7

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## 2010 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	854	194	11	...	1,059
Foreign Affiliates.....	20,501	6,499	6,864	...	33,864
US Insurers .....	9,458	2,288	43,044	...	54,790
Other Non-US.....	393	...	1,119	...	1,512
Total (ex US Affils).....	30,352	8,787	51,027	...	90,166
Grand Total.....	31,206	8,981	51,038	...	91,225

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company					Industry Composite		
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2006	...	...	...	4.5	4.5	...	1.4	42.4
2007	...	...	...	4.3	4.3	...	1.3	40.0
2008	0.1	...	1.0	3.6	4.6	...	1.3	23.0
2009	...	...	...	3.8	3.8	...	1.4	26.3
2010	...	...	...	...	...	...	1.8	31.0

## LIQUIDITY

The company's quick and current liquidity measures are historically low relative to the industry composite, reflecting the large agents balances receivable and amounts due from the FCIC along with the large reinsurance balances payable that are all typically settled in the first quarter of the following year.

The company is afforded operating liquidity through usage of their investment portfolio. These funds are utilized to meet ongoing operating expenses until such time as the company receives its A&O subsidy and prior year underwriting gain from the FCIC. The A&O subsidy generally covers all expenses associated with producing the MPCI business. Loss payments to insured farmers are paid throughout the year from the federally-owned escrow accounts.

## LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2006	25.0	33.0	181.9	19.4	69.4	151.9	220.4	13.7
2007	26.0	38.9	209.2	11.1	69.9	154.3	223.9	15.2
2008	14.9	25.1	142.7	17.2	43.9	121.8	199.7	22.1
2009	21.4	55.1	202.9	10.1	54.2	139.9	216.7	18.1
2010	44.2	60.6	247.1	7.0	56.8	147.0	210.9	15.6

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)	
2006	130,678	118,239	2,061	251.3	213.1	115.4	118.7	
2007	158,651	134,471	3,501	197.1	168.3	117.1	116.2	
2008	400,106	358,636	-4,088	240.3	206.8	108.7	113.5	
2009	-140,124	-160,817	-6,622	64.6	62.2	111.7	115.7	
2010	88,075	39,474	63,031	131.0	111.6	125.6	138.6	

## HISTORY

This company was originally organized as a reciprocal inter-insurance exchange in January 1919 under the laws of Iowa as The State Automobile Insurance Association; it began business on May 19, 1919. On April 1, 1957, the title State Automobile and Casualty Underwriters was adopted. Effective December 31, 1985, the exchange completed its conversion to a stock basis of operation under the title State Automobile and Casualty Underwriters, Inc. The former parent company, Automobile Underwriters Corporation, received the stock of the company to compensate for the cancellation of the exchange's guaranty fund certificates that it had held.

On February 27, 1990, all of the company's business was sold to United Fire and Casualty Company, Cedar Rapids, Iowa, by Automobile Underwriters Corporation, a wholly-owned subsidiary of The Statesman Group, Inc., a Delaware insurance and financial services holding company.

In October of 1990, the NAU Insurance Company (NAU Insurance), a Minnesota corporation, acquired 100% ownership of the company, known at the time as State Automobile and Casualty Underwriters, Inc., as a shell and changed the name to NAU Country Insurance Company (NAU Country). The company was redomiciled to Minnesota on January 8, 1991. NAU Insurance, which was 100% owned by NAU Holding Company, LLC (NAU Holding), held direct ownership of NAU Country until NAU Insurance was merged into NAU Country in 1998. Since the 1998 merger, all shares of NAU Country have been directly held by NAU Holding. A former sister company of NAU Country, Mt. States Insurance Company, was sold as a shell in December 2001.

On May 24, 2005, Lightyear NAU Acquisition, Inc. purchased approximately 85% of NAU Holding in exchange for cash, a note payable, a contingent purchase agreement, and certain agreements regarding stock bonuses. James Deal retained approximately 13% ownership and 2% was retained by Gregory Deal.

On July 1, 2010, QBE Holdings, Inc. purchased NAU Country's parent, Lightyear NAU Acquisition, Inc. (renamed NAU Acquisition, Inc.). NAU Acquisition, Inc. was merged into NAU Holding Company, LLC during 2011. QBE Holdings, Inc. is a subsidiary of QBE Insurance Group Limited [ASX: QBE.AX], an Australian based insurance and reinsurance group with operations worldwide.

## MANAGEMENT

Paid-up capital of \$3,000,000 consists of 1,000,000 outstanding shares of common stock with a par value of \$3.00 per share. The company has 10,000,000 shares authorized. All of the outstanding common shares of the company are owned by NAU Holding Company, LLC, a Minnesota limited liability company that was formed in 1992. Ownership of the immediate parent is held by QBE Holdings, Inc., which in turn is owned by QBE Holdings, PTY Limited, Inc. The latter is ultimately owned by QBE Insurance Group Limited, a publicly traded company incorporated under the laws of Australia.

The company's Board of Directors is chaired by Francis M. O'Halloran, CEO of QBE. Day to day activities are under the direction of Gregory Deal, the company's President and CEO. Greg has worked in the industry since the program's beginnings (with the passage of the Crop Insurance Act of 1980) and has expertise in all aspects of the program.

**Officers:** President and Chief Executive Officer, Gregory J. Deal; Executive Vice President, Treasurer and Chief Financial Officer, James R. Korin; Executive Vice Presidents, Gregory K. Burger, Larry D. Heitman; Vice President, Secretary and General Counsel, Douglas M. Jakway; Vice Presidents, Michael G. Deal (Technology), Jay W. Domer, Dennis A. Keifer, Elliot L. Konschak (Underwriting and Standards), John A. McDermott, Mark O. Mossman (Claims), Barry E. Olson, Kevin J. Swanson.

**Directors:** Gregory J. Deal, James D. Deal, James J. Fiore, Christopher C. Fish, James R. Korin, Francis M. O'Halloran, John Rumlper.

## REGULATORY

An examination of the financial condition was made as of December 31, 2006, by the insurance department of Minnesota. The 2010 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, QBE the Americas.

**Territory:** The company is licensed in AL, AZ, AR, CA, CO, FL, GA, ID, IL, IN, IA, KS, KY, MI, MN, MS, MO, MT, NE, NV, NM, NC, ND, OH, OK, OR, PA, SC, SD, TN, TX, UT, VA, WA, WV and WI.

## REINSURANCE

The company's net retention for both MPCI and non-MPCI lines, after quota share reinsurance, is further protected by a stop loss reinsurance treaty. The stop loss treaty provides 95% protection for losses in excess of a 102% loss ratio, up to an approximate maximum 185% loss ratio. Through the use of such reinsurance, the company has minimized its net exposure, through a probable maximum loss analysis, to less than 25% of policyholders' surplus. Losses on MPCI business in excess of the 500% loss ratio revert to the FCIC while losses in excess of 100% and less than 500% are partially reverted back to the FCIC as outlined in the SRA. The company historically had several high quality principal commercial reinsurers on its MPCI and crop/hail business but outside of the FCIC, affiliated reinsurer Equator Re was NAU Country's primary reinsurer in 2010.

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## BALANCE SHEET

	ADMITTED ASSETS (\$000)			
	12/31/10	12/31/09	'10%	'09%
Bonds .....	57,664	147,700	11.7	25.4
Common stock .....	...	11,162	...	1.9
Cash & short-term invest .....	60,961	-2,071	12.4	-0.4
Total invested assets .....	118,625	156,791	24.1	26.9
Premium balances .....	20,441	29,913	4.1	5.1
Accrued interest .....	294	1,148	0.1	0.2
All other assets .....	353,382	394,100	71.7	67.7
Total assets .....	492,742	581,952	100.0	100.0

	LIABILITIES & SURPLUS (\$000)			
	12/31/10	12/31/09	'10%	'09%
Loss & LAE reserves .....	32,651	61,723	6.6	10.6
Unearned premiums .....	10,372	10,188	2.1	1.8
All other liabilities .....	156,412	214,961	31.7	36.9
Total liabilities .....	199,435	286,872	40.5	49.3
Capital & assigned surplus .....	46,820	46,820	9.5	8.0
Unassigned surplus .....	246,487	248,260	50.0	42.7
Total policyholders' surplus .....	293,307	295,080	59.5	50.7
Total liabilities & surplus .....	492,742	581,952	100.0	100.0

## SUMMARY OF 2010 OPERATIONS (\$000)

Statement of Income	12/31/10	Funds Provided from Operations	
		12/31/10	12/31/10
Premiums earned .....	368,400	Premiums collected .....	372,316
Losses incurred .....	218,420	Benefit & loss related pmts	253,173
LAE incurred .....	21,291	LAE & undrw expenses paid	31,068
Undrw expenses incurred	1,384	Undrw cash flow .....	88,075
Net underwriting income	127,304	Investment income .....	3,387
Net investment income .....	2,283	Other income/expense ...	2,691
Other income/expense ...	2,691	Pre-tax cash operations	94,153
Pre-tax oper income ...	132,278	Income taxes pd (recov) ...	54,679
Realized capital gains .....	1,798	Net oper cash flow .....	39,474
Income taxes incurred .....	46,046		
Net income .....	88,030		

## Ultimate Parent: QBE Insurance Group Limited

### NORTH POINTE INSURANCE COMPANY

Harrisburg, PA  
One General Drive, Sun Prairie, WI 53596  
Web: www.npic.com

Tel: 248-358-1171  
AMB#: 000317  
Ultimate Parent#: 085434

Fax: 248-359-5783  
NAIC#: 27740  
FEIN#: 38-2706529

## BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength and relationship with an affiliated reinsurer, which reinsures virtually all of the company's business, the company is assigned the Best's Financial Strength Rating of its affiliated reinsurer, General Casualty Company of Wisconsin, which is A (Excellent). The company is assigned the Financial Size Category of Class XI, which is the Financial Size Category of its affiliated reinsurer.

## RATING RATIONALE

The following text is derived from the report of QBE Regional Insurance Group.

**Rating Rationale:** The rating reflects QBE Regional Insurance Group's (QBE Regional) solid capital position, strong regional market presence, solid agency franchise and its strategic importance as one of the flagship platforms with QBE the Americas. Over the last several years there has been improved intercompany functionality, which has resulted in solid overall underwriting results despite some recent deterioration. Partially offsetting these positive rating factors are the somewhat volatile operating performance and the group's slightly elevated net premium leverage. The group's portfolio will benefit from increased diversification over the near term with the influx of additional program business from the former RenaissanceRe insurance companies acquired by QBE Insurance Group Limited early in 2011. The outlook is based on A.M. Best's view that the group will continue to generate favorable operating results, and maintain capitalization that supports its rating considering the aforementioned expectation of top-line premium growth from affiliated production sources.

Driven by conservative balance sheet management fundamentals, the group's capitalization has remained supportive of the rating despite significant parent company dividends paid annually. QBE Regional's five-year operating returns and profitability measures are generally in line with those of the industry composite. Results have been somewhat less favorable in the last two calendar years as the group has experienced catastrophe- and weather-related losses and modestly adverse loss reserve development on the commercial auto liability and commercial multi-peril lines of business, specifically. However, overall loss reserve development has been positive over the long term. The group continues to benefit from leveraging its strong agency relationships to manage its way through the current competitive market cycle.

**Best's Financial Strength Rating: A r**

**Outlook: Stable**

## FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
10/12/11	A r	08/28/08	A-
10/01/10	A-	01/08/08	A-u
09/30/09	A-	12/13/06	A-

## KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data				Total Admitted Assets	Policyholders' Surplus		
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income				
2006	121,808	89,691	7,107	6,154	252,910	86,434		
2007	117,803	104,055	-42	3,720	243,847	76,842		
2008	112,177	119,019	-22,511	-20,467	250,808	57,875		
2009	84,064	32,380	3,310	3,906	136,774	58,556		
2010	70,642	40,938	839	597	114,307	43,887		
Profitability		Leverage		Liquidity				
Period Ending	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2006	101.6	3.9	7.6	13.8	1.0	3.0	152.2	106.7
2007	103.4	4.1	0.0	4.1	1.4	3.5	146.1	101.3
2008	123.8	3.0	-19.5	...	2.1	5.4	130.2	104.2
2009	125.5	2.8	5.9	...	0.6	1.9	175.4	28.9
2010	103.0	0.8	1.9	...	0.9	2.5	162.6	137.2
5-Yr	111.1	3.2	-2.8	...	...	...	...	...

(\* ) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

## BUSINESS REVIEW

North Pointe Insurance Company (NPIC) specializes in underwriting liquor liability, general liability and property coverage for small to medium size establishments, which include restaurants, bars, taverns, convenience stores, bowling centers, fraternal organizations and clubs primarily in the states of Michigan, Illinois, Ohio and Iowa.

NPIC has successfully penetrated the Michigan liquor liability marketplace, becoming the largest writer of that coverage in the state with a market share of roughly 35%. Liquor liability coverage is written on a per occurrence basis, with both audits and inspections performed for each individual policyholder's operations. Business is primarily marketed and

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distributed through approximately 2,200 independent agents. NPIC has received endorsements from Bowling Center Associations in the states of Michigan, Iowa, Illinois, Ohio, Pennsylvania, New York, Florida, and Colorado. North Pointe is the endorsed carrier of the Bowling Proprietors of America (BPAA). It currently provides insurance coverage for approximately sixty percent of the bowling centers in Michigan. North Pointe also insures roller rinks and is the endorsed carrier for the Roller Skating Association of America (RSA).

Policies written by former affiliate, North Pointe Casualty Insurance Company (NPCIC), were non-renewed in 2009 with an offer to be renewed in NPIC. NPCIC principally wrote other liability, commercial multi-peril insurance, allied lines and inland marine coverage primarily for small businesses in the state of Florida.

The following text is derived from the report of QBE Regional Insurance Group.

QBE Insurance Group Limited (QBE) purchased Winterthur U.S. Holdings on May 31, 2007, and renamed it QBE Regional Companies (N.A.), Inc. QBE Regional Insurance Group (QBE Regional) is comprised of fourteen companies, led by General Casualty Company of Wisconsin. The group operates in a 33-state territory through eight regional offices. Historically, the group's operating efforts in North America were divided into the separate subgroups which had been acquired by Winterthur U.S. Holdings starting in 1982. After a series of acquisitions, mergers, sales and spin-offs which followed in the next two decades, the group consisted of two operating units, the Unigard Group and the General Casualty Group. Historically, these two operating units had operated with separate managerial teams while functioning under a unified set of strategic guidelines. Since January 2005, all of the group's business has been pooled together, with General Casualty Company of Wisconsin acting as the lead pool member. The current amalgamation incorporates some of QBE's most recent acquisitions and the group now represents a regional integration of the four main brands, General Casualty, Unigard, Farmers Union Insurance and QBE Agri under the single QBE Regional brand. The latter two brands are focused on providing insurance solutions for clients located in rural areas and those involved in a wide range of agricultural businesses, respectively. Back-office functions have been centralized for several years. Marketing, underwriting, claims handling, policyholder services and agency broker relations continue to be managed locally by the operating units via a network of regional and branch offices.

The group markets its products through nearly 1,700 independent retail agency partners with direct billing facilities, automation support, insurance rating applications and technology development available to its agents and an increasing number interfacing with the company, including access to claims servicing information. Approximately 75% of these independent agents have represented QBE for more than five years and 65% for more than ten years. QBE Regional continues to invest in information technology and upgrades as a means to automate and synchronize differences between subgroups, as well as reduce processing time, increase overall operating efficiencies, and enhance service to its independent agency partners. The group generally does business with small and medium-sized agents in suburban and rural areas. Additionally, the group also transacts business through a captive agency force of more than 500 (for business written by National Farmers Union P & C).

The group underwrites full coverage commercial and private passenger automobile, workers' compensation, commercial multiple peril, homeowners, general liability, umbrella and other miscellaneous coverages throughout the midwestern, northeastern, southeastern, northwestern and western states through the independent agency system. The group writes both commercial and personal lines business split approximately 65% and 35%, respectively. The commercial lines department targets "main street" business in mercantile, service, light manufacturing, office, contracting, hotel/motel and building owner classes. The group has historically written small to medium-sized commercial accounts, with an increased emphasis in recent years placed on larger accounts with premiums over \$150,000 due to market dislocation created by some large national commercial carriers with an emphasis on short-tail property coverages. These accounts now represent about 20% of the total commercial book of business. The personal lines book of business is split between automobile and homeowners. Earthquake insurance is also offered with a minimum 5-15% deductible that varies by state with California and Washington requiring a minimum 15% deductible. A marginal amount of the group's homeowner policies in California carry earthquake coverage.

**Direct Premium Writings By Product Lines:** Direct Premiums written at the last year end totaled (\$000) \$70,642, and were distributed as follows: Oth Liab Occur, \$31,444; Allied Lines, \$15,518; Workers' Comp, \$8,929; Homeowners, \$4,260; Comm'l Auto Liab, \$3,264; Com'l MultiPeril, \$1,663; Fire, \$1,591; All Other, \$3,972.

**Geographical breakdown of direct premium writings (\$000):** Michigan, \$22,889 (32.4%); Florida, \$20,272 (28.7%); Indiana, \$4,753 (6.7%); Ohio, \$3,464 (4.9%); Illinois, \$2,697 (3.8%); other jurisdictions, \$16,567 (23.5%).

## FINANCIAL PERFORMANCE

The following text is derived from the report of QBE Regional Insurance Group.

**Overall Earnings:** The group has produced varied but mostly favorable operating results with the five-year pretax return on revenue being slightly below the industry composite average. However, the five-year total return on surplus more closely approximates the composite norm. Actions have been taken to address portions of the agribusiness book that have not performed well, specifically acquired portfolios. In addition, the group previously increased workers' compensation reserves, primarily on pre-1994 cases and the latest trends concerning reserve development on that line of business have been more positive. The decline in the group's invested asset base, driven by lower premium levels, combined with the prevailing low interest rate environment has resulted in considerably lower net investment income. In earlier years, investment income complemented underwriting gains to generate considerable net earnings.

Management seeks to improve the groups earnings based upon profitability initiatives, including non-renewal of certain undesirable business and modification of state-by-state appetite for certain lines of business, a comprehensive reinsurance program and conservative investment strategies. Further, as the more recently acquired segments become fully integrated as a part of the QBE enterprise, it is expected that operating synergies will continue to materialize.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2006	7.6	8.2	101.6	93.0	18.9	19.2	94.3	79.9
2007	0.0	2.7	103.4	94.8	20.6	15.7	94.7	78.8
2008	-19.5	-30.1	123.8	118.5	16.6	-1.0	98.9	83.7
2009	5.9	6.7	125.5	118.2	14.9	11.2	100.0	85.2
2010	1.9	1.2	103.0	101.4	10.4	9.4	104.5	88.9
5-Yr	-2.8	-2.0	111.1	104.3	16.4	10.7	98.3	83.1

**Underwriting Income:** The group has experienced some underwriting variability over the last five years, influenced by catastrophe and weather-related losses, slight adverse loss reserve development on commercial automobile and workers' compensation business, asbestos and environmental losses, and California construction defect claims. The group's portfolio remains susceptible to severe weather losses and catastrophes in the Northwest and Midwest operating territories but exposures are actively managed via underwriting guidelines and catastrophe risk modeling. Asbestos exposures relate to third-tier, non-manufacturing entities which were written, for the most part, prior to 1990. The environmental exposures related to homeowners' oil, dry cleaning and other small commercial exposures, have seen fewer new claims emerge. The defect claims almost exclusively reside in California and primarily relate to policies written in the late 1980s to early 1990s, at which time the group began exiting the business.

To improve underwriting profitability, management implemented pricing adequacy initiatives on both commercial and personal lines, restructured commission payouts, reduced catastrophe exposure and enhanced loss control procedures. In particular, coastal exposures have been reduced through implementation of an individualized state-by-state approach to writing business that has allowed significant improvements in limiting these exposures. The group also targets the less catastrophe-exposed Midwestern states, with approximately one-fifth of net writings in Wisconsin. In addition,

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homeowners business has been reduced in storm-prone Midwestern states and efforts have been made to curtail earthquake losses by capping individual exposure per policy. The workers' compensation portfolio has been reviewed including the identification of the worse performing 20% of accounts with action plans implemented to address noted problems.

The group's five-year combined ratio remains slightly better than the industry composite average. Following the 2009 year when the reported combined ratio reflected approximately two points of adverse development on the prior year's workers' compensation reserves, overall reserve development had a neutral impact on underwriting results in 2010. The group's underwriting expense ratio is a few percentage points higher than the peer composite, due primarily to a greater decline in written premium than in other (non-commission) underwriting expenses. The costs associated with integrating some of the newly acquired businesses into the group have had a slight impact on the expense ratio as well. Still, despite increased employee benefit costs and technology investments, and costs related to geographic expansion, the group has maintained its underwriting expenses at reasonable levels. Further improvements are being sought through increased efficiencies, cost reductions and some expected synergies.

QBE Regional will continue to employ a conservative, overall operating strategy with emphasis on being a premier agency company, while maintaining an efficient cost infrastructure, and avoiding litigious geographic areas. To help improve long-term profitability, management has identified agency partners with unprofitable books of business with the group and began terminating these agency relationships during the second quarter of 2011 with the majority of them being terminated by the end of the year. In addition, near and long-term profitability will also be impacted by the quality of the programs the group will write as a result of the acquisition of the U.S. operations of RenaissanceRe, which includes some program business that QBE management has deemed desirable enough to maintain as part of the program business portfolio written by QBE Regional's member companies.

## UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2006	282	33.3	18.0	51.3	15.6	34.4	49.9	0.3	101.6
2007	-6,928	39.4	19.8	59.2	16.2	27.7	43.9	0.3	103.4
2008	-28,953	62.8	18.8	81.7	16.8	25.1	41.9	0.2	123.8
2009	-777	54.6	13.4	68.0	-13.2	70.5	57.3	0.3	125.5
2010	-426	47.1	15.6	62.6	3.7	36.7	40.4	-0.1	103.0
5-Yr	...	47.6	17.8	65.4	12.4	33.0	45.4	0.2	111.1

**Investment Income:** Since QBE acquired the group, there has been a shift in the investment strategy. Under QBE's oversight the group's defined investment policy guidelines have employed comparative portfolio and benchmarking analysis, asset/liability management, and non-speculative hedging techniques to preserve capital and achieve targeted returns. Cash and cash equivalents make up the second largest percentage allocation in the investment portfolio after fixed income maturities, which are predominantly corporate bonds and U.S. Treasuries. Investment in common stocks decreased substantially in 2010 reflecting a change in the equity investment portfolio management and a change in investment strategy within QBE Americas.

The group's investment yield has typically lagged the composite. The gap has widened somewhat in 2010; however, preservation of capital has been more of the focus in terms of investment strategies employed.

## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)
2006	7,958	62	504	22.4	3.9	4.2	9.2	4.8
2007	8,249	2,072	-1,480	3.7	4.1	4.3	9.6	5.0
2008	6,074	-150	185	-26.4	3.0	3.0	-5.4	4.7
2009	4,100	184	...	-32.5	2.8	2.9	-9.1	4.4
2010	673	129	...	-83.6	0.8	0.9	2.3	4.4
5-Yr	...	...	...	-17.7	3.2	3.4	1.0	4.7

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2010 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
		2010	2009	
Long-term bonds .....	51,699	62.1	39.4	46.7
Other Inv Assets .....	31,517	37.9	60.6	-41.8
Total .....	83,216	100.0	100.0	-6.9

## 2010 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class		Struc. Secur. (%)	Struc. Secur. (% of PHS)
				1-2 (%)	3-6 (%)		
Governments .....	36.0	3.0	2.4	100.0	...	...	...
States, terr & poss..	0.3	8.1	7.5	100.0	...	...	...
Corporates .....	63.7	0.2	2.8	100.0	...	...	...
Total all bonds..	100.0	1.1	2.7	100.0	...	...	...

## CAPITALIZATION

The following text is derived from the report of QBE Regional Insurance Group.

**Capital Generation:** The group's surplus position has decreased over the past five years and is largely driven by parental dividend payouts, with the largest taking place in 2008. The extraordinary shareholder dividend in that year was used to facilitate acquisitions, partially fund debt service requirements as well as provide a normal dividend to QBE. Dividend payouts are expected to continue, but it is anticipated that they will be more in line with the lower payouts in 2009 and 2010. Through the first half of 2011, the group paid a \$20.0 million dividend to its parent. Although underwriting losses have led to lower pre-tax operating income over the last two calendar years, pretax profits have been consistently generated and have been the backbone of the group's capital generation.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Pretax Operating Income	Source of Surplus Growth				Change in PHS	PHS Growth (%)
		Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax			
2006	7,107	566	...	1,824	9,497	12.3	
2007	-42	592	-5,000	-5,142	-9,593	-11.1	
2008	-22,511	35	...	3,510	-18,966	-24.7	
2009	3,310	184	...	-2,813	681	1.2	
2010	839	129	-22,000	6,363	-14,669	-25.1	
5-Yr	-11,299	1,506	-27,000	3,742	-33,051	...	

**Overall Capitalization:** The group's risk-adjusted capitalization is solid and supportive of the current rating based on Best's Capital Adequacy Ratio (BCAR). The capital position is derived from the group's favorable but somewhat varied operating performance. The group's historically elevated underwriting leverage has been primarily driven by net premium leverage that is roughly double the composite average. Reserve leverage has remained consistent over the recent five-year period and is in line with the composite.

## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			Dividend Requirements	
		Cap. Stock/Contrib. Cap.	Other	Unassigned Surplus	Stockholder Divs	Div. To Div. Net Inc. (%)
2006	86,434	51.2	...	48.8	...	...
2007	76,842	57.6	...	42.4	-5,000	-99.9
2008	57,875	76.5	...	23.5	...	...
2009	58,556	75.6	0.3	24.1	...	...
2010	43,887	69.7	3.9	26.3	-8,343	994.8

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## LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2006	1.0	1.2	3.0	4.2	0.9	1.6	3.3	4.3
2007	1.4	1.3	3.5	4.5	0.8	1.5	3.1	4.0
2008	2.1	2.3	5.4	6.6	0.9	1.7	3.4	4.4
2009	0.6	0.7	1.9	3.9	0.8	1.5	3.0	3.8
2010	0.9	0.9	2.5	4.6	0.7	1.5	2.9	3.8

Current BCAR: 215.9

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2006	121,808	-3.3	127,436	-4.9	89,691	-13.4	93,170	-16.6
2007	117,803	-3.3	124,364	-2.4	104,055	16.0	95,676	2.7
2008	112,177	-4.8	128,092	3.0	119,019	14.4	115,397	20.6
2009	84,064	-25.1	98,476	-23.1	32,380	-72.8	55,922	-51.5
2010	70,642	-16.0	70,840	-28.1	40,938	26.4	43,036	-23.0
5-Yr CAGR	...	-10.9	...	-12.0	...	-16.9	...	-17.4
5-Yr Chg	...	-43.9	...	-47.1	...	-60.5	...	-61.5

**Reserve Quality:** The group's loss reserves have trended downward over the last three years, in line with the declining premium base. Loss-related payments have also helped drive the decline in the group's reserve level. Overall prior year loss reserve development in 2010 was neutral with increases on the commercial automobile liability and commercial multi-peril lines of business offset by favorable development on general liability (occurrence), property and workers' compensation lines. The previous calendar year, management determined that the prior year's workers' compensation reserves needed to be increased by approximately \$24.0 million. That adverse development was only partially offset by favorable development on most other lines of coverage resulting in approximately \$20.5 million in adverse development for the year.

Due to policies written decades ago, the group has some exposure to asbestos claims. The group's asbestos exposure relates to third-tier, non-manufacturing entities with a limited number of policyholders remaining. IBNR reserves remain established to cover additional exposure on both known and unasserted claims based on the latest completed actuarial study.

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/10	Unpaid Res. to Develop. (%)
2005	106,345	115,176	8.3	11.5	104.7	3,078	2.7
2006	99,629	111,714	12.1	14.0	119.8	5,495	4.9
2007	96,358	110,264	14.4	18.1	115.9	8,298	7.5
2008	126,986	120,370	-5.2	-11.4	104.3	14,618	12.1
2009	38,365	36,889	-3.8	-2.5	66.0	22,443	60.8
2010	36,620	36,620	...	...	85.1	36,620	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Unpaid Reserves @12/10	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2005	41,802	37,033	-11.4	367	57.8	104.0
2006	34,214	30,769	-10.1	2,417	56.7	107.0
2007	33,498	34,693	3.6	2,803	58.4	102.6
2008	49,149	43,936	-10.6	6,320	64.4	106.5
2009	11,633	12,931	11.2	7,825	74.4	131.9
2010	14,177	14,177	...	14,177	60.7	101.0

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	
2006	106,851	70.4	85.5	123.6	82.7	73.4	100.7	
2007	74,080	83.7	74.8	96.4	83.5	65.4	90.5	
2008	68,346	91.8	99.8	118.1	83.1	73.6	101.7	
2009	120,442	32.9	102.3	205.7	81.4	64.6	89.1	
2010	89,728	57.8	136.5	204.5	79.9	60.8	84.4	

## 2010 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	25,190	27,290	65	...	52,545
Foreign Affiliates.....	9,137	12,312	13,842	...	35,291
US Insurers.....	10,262	4,161	30	-469	13,984
Pool/Associations.....	10,417	5	5	...	10,427
Other Non-US.....	102	105	...	...	207
Total (ex US Affils).....	29,918	16,583	13,877	-469	59,909
Grand Total.....	55,108	43,873	13,942	-469	112,454

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2006	0.2	...	0.5	13.2	13.8	...	6.2	16.6
2007	0.2	...	...	4.0	4.1	...	5.9	15.4
2008	...	...	...	...	...	...	5.5	9.5
2009	...	...	...	...	...	...	6.0	8.6
2010	...	...	...	...	...	...	7.1	9.3

## LIQUIDITY

The following text is derived from the report of QBE Regional Insurance Group.

The group's current and overall liquidity measures closely approximate industry composite averages. Recent underwriting and operating cash flows have been negatively impacted by loss and underwriting expense-related payments that have outpaced collected premiums. However, the group maintains a conservative investment philosophy which allocates a substantial amount of the overall portfolio to cash and cash equivalents. The composition of invested assets emphasizing short-term fixed income securities in addition to the cash and cash equivalents drives the group's excellent quick liquidity, which exceeds the composite norm by a considerable margin. The portfolio's average fixed-income maturity is short at approximately two years.

## LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2006	40.3	127.4	152.2	10.4	23.7	109.2	141.4	12.0
2007	32.6	122.7	146.1	17.9	21.8	111.3	144.6	10.5
2008	97.2	106.7	130.2	14.3	19.0	104.6	140.1	12.4
2009	93.9	114.1	175.4	12.1	21.3	110.8	145.3	9.4
2010	74.8	118.4	162.6	9.5	21.2	111.2	145.6	9.3

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company			Industry Composite		
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow
2006	-41	6,457	-6,710	100.0	106.7	113.1
2007	-5,284	1,377	6,837	95.0	101.3	111.1
2008	1,940	4,980	142,150	101.7	104.2	100.4
2009	-122,509	-115,798	-112,437	24.8	28.9	98.4
2010	11,330	13,756	-22,867	130.6	137.2	96.5

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## HISTORY

The company was incorporated on October 13, 1986 under the laws of Michigan and commenced business on January 16, 1987. Effective September 23, 2010, the company redomesticated to the Commonwealth of Pennsylvania. Paid in capital of \$14,817,563 is comprised of 30,000 shares of common stock at a par value of \$100 per share and \$11,817,563 of contributed surplus. There are 50,000 authorized shares.

Effective December 31, 2000, the State of Michigan and the State of Illinois approved the merger of North Pointe Insurance Company of Illinois into NPIC. North Pointe Insurance Company of Illinois was formed in 1995 and provided liquor liability and property and liability coverage for restaurants, bars, taverns and bowling centers in the state of Illinois.

Effective June 30, 2003, all assets and liabilities except \$5 million in investments of Universal Fire & Casualty Company (UFC) were transferred to NPIC in accordance with the Transfer Agreement approved by the Indiana Department of Insurance. Subsequently, on July 7, 2003, UFC was sold as a clean shell.

On September 28, 2005, North Pointe Holdings Corporation completed an initial public offering (IPO) of 4,000,000 shares of common stock and contributed proceeds from the sale to NPIC, its former sister company North Pointe Casualty Insurance Company, and former newly formed affiliate Home Pointe Insurance Company, in addition to paying off outstanding credit facility indebtedness.

On April 30, 2008, QBE Holdings Inc. closed on the acquisition of North Pointe Holdings Corporation. QBE paid approximately \$146 million for the deal.

Effective December 31, 2010, an affiliate, Capital City Insurance Company, Inc. (CCIC), merged with and into NPIC following the approval by the State of South Carolina Department of Insurance. As of the date of the merger, CCIC had no in-force policies. Effective October 1, 2009, CCIC had entered into a loss portfolio transfer agreement and a 100% quota share reinsurance agreement with an affiliate, General Casualty Company of Wisconsin.

## MANAGEMENT

All outstanding shares of common stock of NPIC are held by North Pointe Financial Services, Inc. (NPFS), a Michigan-domiciled financial services holding company. North Pointe Holdings Corporation (NPHC) purchased all of the outstanding shares of NPFS from Queensway Holdings, Inc., a wholly owned subsidiary of Queensway Financial Holdings Limited, Toronto, Ontario, on June 26, 2002, as part of a management-led buy back. NPFS is a wholly-owned subsidiary of QBE Holdings Inc., following the merger of NPHC into NPFS on October 1, 2009. QBE Holdings Inc. is ultimately owned by QBE Insurance Group Limited, a publicly traded company incorporated under the laws of Australia.

**Officers:** Chief Executive Officer, John Rumpler; President and Senior Vice President, Robert D. Byler; Chief Financial Officer, Christopher C. Fish; Chief Risk Officer, Shaun P. Flynn; Chief Claim Officer, Dean K. Harring; Senior Vice President and Treasurer, Robert M. Franzino; Senior Vice Presidents, Christopher S. Alberghini, Jeff A. Amsle, Bruce D. Carlino, Domingo A. Cid, Daniel J. Czabaj, Robert J. Felix, John J. Fitzgerald, Sheila D. Luken, Seth W. Myers, Erich E. Pell, John S. Rodriguez, John R. Schanen (Finance); Secretary and Chief Legal Officer, Peter T. Maloney; Chief Actuary, Nicholus H. Pastor; Chief Human Resource Officer, Nancy L. Kelly.

**Directors:** Harvey J. Bazaar, Robert D. Byler, Peter K. Christen, Rodney P. Farrell, James J. Fiore, Christopher C. Fish, Francis M. O'Halloran, Anthony R. Przybyszewski, John Rumpler, George B. Thwaites.

## REGULATORY

An examination of the financial condition was made as of December 31, 2006, by the insurance department of Michigan. The 2010 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, Chief Actuary, QBE the Americas.

**Territory:** The company is licensed in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, ME, MD, MA, MI, MN, MS, MO, MT, NE, NH, NJ, NM, NY, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY. It also operates on a surplus lines or non-admitted basis in Nevada.

## REINSURANCE

Effective October 1, 2011, NPIC entered into a 100% quota share ceded reinsurance agreement with affiliate, General Casualty Company of Wisconsin (GCW), whereby all in force, new and renewal business is ceded to GCW.

The following text is derived from the report of QBE Regional Insurance Group.

QBE the Americas purchases its reinsurance for its operating entities. QBE the Americas buys a conservative amount of reinsurance coverage for all of its operating entities to mitigate the potential for shock losses, which could weaken the balance sheet.

## BALANCE SHEET

### ADMITTED ASSETS (\$000)

	12/31/10	12/31/09	'10%	'09%
Bonds.....	51,699	35,250	45.2	25.8
Cash & short-term invest.....	31,165	53,789	27.3	39.3
Total invested assets.....	82,864	89,039	72.5	65.1
Premium balances.....	17,906	27,641	15.7	20.2
Accrued interest.....	352	389	0.3	0.3
All other assets.....	13,185	19,705	11.5	14.4
Total assets.....	114,307	136,774	100.0	100.0

### LIABILITIES & SURPLUS (\$000)

	12/31/10	12/31/09	'10%	'09%
Loss & LAE reserves.....	40,963	42,268	35.8	30.9
Unearned premiums.....	20,698	22,796	18.1	16.7
Conditional reserve funds.....	105	253	0.1	0.2
All other liabilities.....	8,654	12,901	7.6	9.4
Total liabilities.....	70,420	78,217	61.6	57.2
Capital & assigned surplus.....	32,337	44,435	28.3	32.5
Unassigned surplus.....	11,550	14,121	10.1	10.3
Total policyholders' surplus.....	43,887	58,556	38.4	42.8
Total liabilities & surplus.....	114,307	136,774	100.0	100.0

## SUMMARY OF 2010 OPERATIONS (\$000)

Statement of Income	12/31/10	Funds Provided from Operations	12/31/10
Premiums earned.....	43,036	Premiums collected.....	48,346
Losses incurred.....	20,257	Benefit & loss related pmts	9,725
LAE incurred.....	6,697	LAE & undrw expenses paid	27,034
Undrw expenses incurred	16,530	Div to policyholders.....	257
Div to policyholders.....	-22	Undrw cash flow.....	11,330
Net underwriting income	-426	Investment income.....	706
Net investment income.....	673	Other income/expense.....	592
Other income/expense.....	592	Pre-tax cash operations	12,629
Pre-tax oper income.....	839	Income taxes pd (recov)...	-1,127
Realized capital gains.....	129	Net oper cash flow.....	13,756
Income taxes incurred.....	370		
Net income.....	597		

# Best's Rating Report

## Ultimate Parent: QBE Insurance Group Limited

### PRAETORIAN INSURANCE COMPANY

Harrisburg, PA  
Wall Street Plaza, 88 Pine Street, 4th Floor, New York, NY 10005  
Web: www.QBE.com

Tel: 212-422-1212  
AMB#: 002643  
Ultimate Parent#: 085434

Fax: 212-422-1313  
NAIC#: 37257  
FEIN#: 36-3030511

#### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The company's Financial Size Category is Class IX.

#### RATING RATIONALE

**Rating Rationale:** The rating reflects Praetorian Insurance Company's (Praetorian) solid risk-adjusted capital position, specialty niche business focus and strategic importance within the overall organization of QBE Insurance Group Limited (QBE). The rating also reflects the company's balance sheet, which is enhanced by the financial position and support of its parent. These strengths are somewhat offset by the elevated dependence on reinsurance and concerns regarding the level of control and long-term profitability prospects surrounding the program business. The outlook reflects A.M. Best's expectation of improved results through targeted efforts to rehabilitate and strengthen pricing on marginally performing programs, and the anticipated reduction of costs on workers' compensation programs through specific expense-related initiatives, in addition to the maintenance of adequate capitalization to support its business risks.

Praetorian provides its parent with complementary products to its current U.S. program and specialty business. With an expense ratio that still exceeds the average of the industry composite, management continues to focus on process improvement initiatives and system conversions. QBE management has put forth targeted efforts focused on enhancing Praetorian's book of business through the identification and discontinuation of poorly performing programs and programs that have not produced returns that meet QBE's standards, which are positive qualitative factors relative to the rating. Application of more stringent program selection guidelines is expected to benefit new program business writings.

**Best's Financial Strength Rating: A**

**Outlook: Stable**

#### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
10/12/11	A	08/28/08	A-g
10/01/10	A	09/06/07	A-g
06/16/10	A-	12/14/06	A-gu
09/30/09	A-g		

#### KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data					
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
2006	835,812	569,850	125,739	59,968	1,888,743	436,778
2007	887,993	440,334	33,947	35,372	1,460,896	523,780
2008	628,584	289,422	36,481	24,010	1,209,930	412,646
2009	507,987	329,849	-1,771	9,115	1,136,418	453,223
2010	545,554	311,746	-13,633	-530	1,144,635	420,894

  

Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2006	75.1	2.7	24.2	0.0	1.3	4.6	130.2	109.6
2007	100.6	3.7	7.0	...	0.8	2.6	156.9	212.9
2008	104.6	2.7	10.1	12.4	0.7	2.6	153.1	92.1
2009	101.7	1.7	-0.6	14.3	0.7	2.2	169.0	105.8
2010	102.0	0.6	-4.6	5.2	0.7	2.4	160.9	86.2
5-Yr	93.9	2.4	9.1	...	...	...	...	...

(\*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

#### BUSINESS REVIEW

Praetorian Insurance Company (Praetorian) represents a notable portion of the specialty insurance operations of QBE the Americas. The company's ultimate parent is QBE Insurance Group Limited of Australia. Praetorian specializes in writing specialty program business.

The programs written by Praetorian have been developed through managing general agents (MGAs), general agents and brokers and are focused on specific homogeneous insurance segments. The company's book is comprised of small to medium-sized programs, presenting low to moderate risk profiles, whose historical performance or potential is evaluated on an individual basis in conjunction with the specific general agent and reinsurers involved in each program. The company's expertise in servicing this business is based on the extensive, specialized niche underwriting capabilities of its underwriting staff. Producers have a financial interest in the success of their programs as their compensation is based on the performance of the book of business. The company also utilizes select third-party administrators for claims handling. In recent years, management dramatically refined its control and monitoring processes and began utilizing a team approach on each program. This methodology was designed to more accurately pinpoint those programs that should generate sufficient profitability to satisfy the company's required rate of return.

The Praetorian Financial Group was formed during the third quarter of 2005, beginning with a transaction approved retroactive to July 1, 2005, involving Clarendon National Insurance Company (Clarendon National) selling its two former wholly owned subsidiaries: Praetorian (formerly Insurance Corporation of Hannover) and Redland Insurance Company (Redland) to its former parent, Hannover Finance, Inc. (HFI). Clarendon National is the lead operating insurance carrier of the Clarendon Insurance Group (Clarendon). HFI subsequently contributed the companies to the newly formed holding company, Praetorian Financial Group, Inc., to facilitate the separation of core specialty business that will be written by Praetorian from the terminated programs and select commodity business being managed by Clarendon. On September 27, 2006, Praetorian purchased Alea North America Specialty Insurance Company from the Alea Group Holdings (Bermuda), Ltd., and renamed it Praetorian Specialty Insurance Company (Praetorian Specialty). On May 31, 2007, Praetorian Financial Group was sold to QBE and became an integral operation of its specialty insurance operations along with affiliate QBE Insurance Corporation. Subsequently, in early 2009, Praetorian Specialty was sold as a shell after its book of business was folded into affiliate QBE Specialty Insurance Company. Effective March 31, 2010, Redland merged into Praetorian. The pooling arrangement between both companies was also cancelled.

#### 2010 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Comm'l Auto Liab.....	135,113	75,975	24.4	45.1	108,493
Workers' Comp.....	118,960	72,214	23.2	148.5	136,279
Inland Marine.....	54,789	38,120	12.2	26.4	8,219
Priv Pass Auto Liab.....	61,376	37,987	12.2	90.3	47,379
Com'l MultiPeril.....	71,991	30,408	9.8	149.9	56,558
Auto Physical.....	49,746	27,839	8.9	12.6	13,354
Oth Liab Occur.....	25,307	17,039	5.5	-99.9	39,229
All Other.....	28,270	12,163	3.9	-99.9	34,680
Totals.....	545,554	311,746	100.0	49.8	444,189

**Geographical breakdown of direct premium writings (\$000):** California, \$101,155 (18.5%); New York, \$81,604 (15.0%); Illinois, \$60,558 (11.1%); Texas, \$37,800 (6.9%); New Jersey, \$32,350 (5.9%); Florida, \$31,183 (5.7%); other jurisdictions, \$200,904 (36.8%).

#### FINANCIAL PERFORMANCE

Operating results have been somewhat varied over the past few years. While the company benefits from its adherence to a business strategy specifically targeting smaller to medium-sized programs with a proven history of profitability, its assigned risk commercial automobile programs and workers' compensation programs have reported less favorable results leading to net underwriting losses in 2009 and 2010. Favorable development on loss reserves for other key lines of business have helped to offset some of the negative

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impact from the underperforming programs. Also, the company has historically benefited from ceding commissions. As a program writer, the company typically carries large agency balances on its balance sheet; therefore, income from investments has been generally below average. Lower yields on fixed income securities coupled with a decline in net invested assets as premium volume has declined, resulted in less net investment income over the last two years.

A.M. Best expects the company's clearly defined strategy focused on utilizing established due diligence, underwriting, monitoring, pricing and auditing platforms to write niche program business to continue, helping sustain or improve underwriting and operating results over the near term.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2006	24.2	15.2	75.1	70.7	18.9	19.2	94.3	79.9
2007	7.0	6.7	100.6	92.0	20.6	15.7	94.7	78.8
2008	10.1	4.1	104.6	96.6	16.6	-1.0	98.9	83.7
2009	-0.6	5.2	101.7	96.8	14.9	11.2	100.0	85.2
2010	-4.6	-0.9	102.0	100.3	10.4	9.4	104.5	88.9
5-Yr	9.1	5.8	93.9	88.1	16.4	10.7	98.3	83.1

## UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2006	122,895	49.9	12.0	61.9	-0.9	14.1	13.2	...	75.1
2007	13,834	47.5	16.4	63.9	15.1	21.5	36.7	...	100.6
2008	16,550	47.3	11.0	58.3	20.9	25.4	46.3	...	104.6
2009	-9,378	55.4	13.3	68.7	17.2	15.8	33.0	...	101.7
2010	-10,550	49.8	21.0	70.8	15.4	15.8	31.2	...	102.0
5-Yr	...	49.7	14.5	64.2	11.7	18.0	29.7	...	93.9

## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. (%)	Inv. Yield (%)	Total Return (%)	Inv. Growth (%)	Inv. Yield (%)
2006	22,868	-3,906	-9	159.9	2.7	2.2	9.2	4.8
2007	41,492	-6,661	-3,223	81.4	3.7	2.8	9.6	5.0
2008	29,088	-10,739	-5,038	-29.9	2.7	1.2	-5.4	4.7
2009	15,504	2,739	13,189	-46.7	1.7	3.4	-9.1	4.4
2010	5,112	13,432	-3,514	-67.0	0.6	1.8	2.3	4.4
5-Yr	...	...	...	-3.1	2.4	2.3	1.0	4.7

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2010 Inv. Assets (\$000)		—% of Invested Assets—		Annual % Change
	2010	2009	2010	2009	
Long-term bonds	391,807	48.5	55.6	-19.4	
Stocks	21,951	2.7	7.4	-66.0	
Other Inv Assets	394,607	48.8	37.0	22.0	
Total	808,365	100.0	100.0	-7.5	

## 2010 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class		Struc. Secur. (%)	Struc. Secur. (% of PHS)
				1-2 (%)	3-6 (%)		
Governments	63.8	1.1	1.2	100.0	...	...	...
Special Revenue	0.2	-3.6	8.2	100.0	...	...	...
Corporates	35.9	0.3	4.1	100.0	...	...	...
Total all bonds	100.0	0.7	2.3	100.0	...	...	...

## CAPITALIZATION

The company maintains adequate risk-adjusted capitalization for its rating as measured by Best's Capital Adequacy Ratio (BCAR). Dividends paid to the company's parent and declining earnings have led to some volatility in the level of policyholders' surplus. Praetorian's capital base was initially built up through capital contributions from its former parent company, Hannover Re. Hannover Re made a \$250 million capital contribution in the fourth quarter of 2005 as Praetorian was established to be the ongoing operating entity writing the select book of program business formerly written by Clarendon. In addition, QBE management infused \$75 million of additional capital into Praetorian in 2007. While the company's net leverage is conservative relative to that of the industry composite, Praetorian's gross underwriting leverage remains higher than that of the composite, due in part to the company's above average utilization of reinsurance to support its writings. A.M. Best expects the company to maintain a level of underwriting profitability over the near term in order to generate solid earnings and allow for the possibility of organic surplus growth depending on parent company dividend demands. The company has paid dividends of over \$170 million and returned nearly \$85 million of capital to the parent over the five year period. Subsequently, the company dividended \$29 million and returned \$13 million of capital to the parent in May 2011.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth				Change in PHS	PHS Growth (%)
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax		
2006	125,739	-3,915	-80,244	43,184	84,764	24.1
2007	33,947	-9,884	72,000	-9,062	87,001	19.9
2008	36,481	-15,776	-118,000	-13,838	-111,133	-21.2
2009	-1,771	15,927	-11,760	38,180	40,576	9.8
2010	-13,633	9,919	-42,000	13,385	-32,329	-7.1
5-Yr	180,764	-3,730	-180,004	71,849	68,879	...

## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			Dividend Requirements		
		Cap. Stock/Contrib.	Unassigned Surplus	Other	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2006	436,778	85.3	14.7	...	-80,244	63.8	133.8
2007	523,780	85.5	14.5	...	-3,000	8.8	8.5
2008	412,646	90.8	9.2	...	-45,000	123.4	187.4
2009	453,223	80.1	14.6	5.3	...	...	...
2010	420,894	86.2	7.1	6.7	-42,000	-99.9	-99.9

## LEVERAGE ANALYSIS

Period Ending	Company			Industry Composite				
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2006	1.3	0.8	4.6	10.1	0.9	1.6	3.3	4.3
2007	0.8	0.9	2.6	6.7	0.8	1.5	3.1	4.0
2008	0.7	1.1	2.6	6.3	0.9	1.7	3.4	4.4
2009	0.7	1.0	2.2	5.0	0.8	1.5	3.0	3.8
2010	0.7	1.1	2.4	5.4	0.7	1.5	2.9	3.8

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2006	835,812	63.2	2,271,874	169.1	569,850	36.6	519,869	105.1
2007	887,993	6.2	1,365,484	-39.9	440,334	-22.7	485,474	-6.6
2008	628,584	-29.2	861,543	-36.9	289,422	-34.3	361,325	-25.6
2009	507,987	-19.2	768,893	-10.8	329,849	14.0	317,938	-12.0
2010	545,554	7.4	568,895	-26.0	311,746	-5.5	297,238	-6.5
5-Yr CAGR	...	1.3	...	-7.6	...	-5.7	...	3.2
5-Yr Chg	...	6.5	...	-32.6	...	-25.3	...	17.3

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## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/10	Unpaid Res. to Develop. (%)
2005	144,307	681,687	372.4	152.7	269.0	40,253	5.9
2006	327,355	856,626	161.7	121.2	164.8	90,616	10.6
2007	454,996	1,006,118	121.1	105.2	207.2	141,994	14.1
2008	434,925	419,376	-3.6	-3.8	116.1	199,731	47.6
2009	458,546	447,703	-2.4	-2.4	140.8	279,161	62.4
2010	435,414	435,414	...	...	146.5	435,414	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Unpaid Reserves @12/10	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2005	110,716	109,820	-0.8	21,572	53.1	77.1
2006	223,395	223,378	0.0	50,363	58.9	72.1
2007	200,136	183,732	-8.2	51,378	58.1	94.8
2008	147,601	152,278	3.2	57,737	66.2	112.5
2009	148,616	154,348	3.9	79,430	68.8	101.9
2010	156,253	156,253	...	156,253	70.9	102.1

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company			Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)
2006	2,414,183	48.3	209.9	552.7	82.7	73.4	100.7
2007	2,130,534	37.6	267.1	406.8	83.5	65.4	90.5
2008	1,536,019	45.5	277.2	372.2	83.1	73.6	101.7
2009	1,265,175	63.6	228.1	279.2	81.4	64.6	89.1
2010	1,234,124	56.7	232.1	293.2	79.9	60.8	84.4

## 2010 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	538	2,291	3	...	2,832
Foreign Affiliates.....	205,411	163,489	107,342	...	476,242
US Insurers.....	63,790	101,674	5,827	2,534	173,825
Pools/Associations.....	31	57	...	...	88
Other Non-US.....	123,796	199,056	4,869	-884	326,837
Total (ex US Affils).....	393,028	464,276	118,038	1,650	976,992
Grand Total.....	393,566	466,567	118,041	1,650	979,824

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company					Industry Composite		
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2006	...	...	...	0.0	0.0	8.0	6.2	16.6
2007	...	...	...	...	...	13.6	5.9	15.4
2008	...	...	...	12.4	12.4	12.2	5.5	9.5
2009	...	...	...	14.3	14.3	...	6.0	8.6
2010	...	...	...	5.2	5.2	...	7.1	9.3

## LIQUIDITY

The company's liquidity measures are in line with industry composite averages. Recent operating cash flow has been negatively impacted by increasing loss and commission payments while premium collected has declined. The group maintains a conservative investment philosophy which allocates a substantial amount of the overall portfolio to cash and cash equivalents. The portfolio's average fixed-income maturity is relatively short at slightly over two years.

## LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2006	34.6	76.2	130.2	75.7	23.7	109.2	141.4	12.0
2007	112.2	118.9	156.9	13.9	21.8	111.3	144.6	10.5
2008	101.2	119.0	153.1	19.9	19.0	104.6	140.1	12.4
2009	109.7	130.5	169.0	19.2	21.3	110.8	145.3	9.4
2010	91.3	113.6	160.9	6.3	21.2	111.2	145.6	9.3

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company			Industry Composite		
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Net Cash Flow (%)
2006	72,358	29,317	19,992	128.1	109.6	113.1
2007	477,255	442,090	564,709	255.9	212.9	111.1
2008	-68,273	-29,996	-243,339	81.6	92.1	100.4
2009	-10,400	17,474	-121,719	96.5	105.8	98.4
2010	-40,152	-51,218	71,787	88.7	86.2	96.5

## HISTORY

The company was incorporated under the laws of Illinois on July 20, 1979 and began business on August 7, 1979 as Insurance Corporation of Hannover. The company was organized by interests identified with, and was a wholly owned subsidiary of, Hannover Re, an alien reinsurance corporation organized and existing under the laws of Germany. On September 4, 1979, Hannover Re purchased all 100,000 outstanding shares and became the sole owner of the company. In 1982, administrative offices were moved from Chicago, Illinois to Los Angeles, California.

On December 12, 2002, all outstanding shares of the company were transferred by Hannover Re to its then subsidiary Clarendon National Insurance Company (Clarendon National). Subsequently, administrative offices were moved to New York City. On November 9, 2005, Clarendon National sold its outstanding shares of the company to an affiliate Praetorian Insurance Group, Inc., who changed its name to Praetorian Financial Group, Inc. On July 1, 2006, the name of the company was changed from Insurance Corporation of Hannover to Praetorian Insurance Company. On May 31, 2007, the group was sold to QBE and became an integral operation of its specialty insurance operations along with QBE Insurance Corporation. On July 29, 2009, the company redomesticated from Illinois to the Commonwealth of Pennsylvania. Effective March 31, 2010, Redland Insurance Company merged into the company and the parent merged into QBE Holdings, Inc.

Paid-in capital of \$350,014,384 consists of 85,000 shares of common stock at a par value of \$100 per share and \$341,514,384 of contributed surplus. All authorized shares are issued and outstanding.

## MANAGEMENT

The company is a wholly owned subsidiary of QBE Holdings, Inc., an insurance holding company domiciled in the state of Delaware, which is ultimately owned by QBE Insurance Group Limited, a publicly traded company incorporated under the laws of Australia.

Administrative affairs of the company are directed by President Stephen Fitzpatrick, who was appointed in 2009.

**Officers:** Chief Executive Officer, John Rumpler; President, Stephen Fitzpatrick; Chief Financial Officer, Christopher C. Fish; Chief Underwriting Officer, James J. Fiore; Chief Risk Officer, Ming-I Huang; Chief Claim Officer, Dean Haring; Senior Vice President and Chief Actuary, Nicholas Pastor; Senior Vice Presidents, Lance J. Albright, Edward M. Ashby, Mark Benson, Fabian Burstyn, Daniel J. Czabaj, James Henry, Nancy L. Kelly, Thomas Leonardo, Mitchell D. Luedtke, Stephen T. Morgan, Thomas A. Parker, Joel Yatskowitz; Secretary and Chief Legal Officer, Peter T. Maloney.

**Directors:** Harvey Bazaar, Peter Christen, Rod Farrell, James J. Fiore, Christopher C. Fish, Stephen Fitzpatrick, Vincent McLenaghan, Frank O'Halloran, Anthony R. Przybyszewski, John Rumpler.

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## REGULATORY

An examination of the financial condition was made as of December 31, 2007, by the insurance department of Illinois. The 2010 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, Senior Vice President and Chief Actuary.

**Territory:** The company is licensed in the District of Columbia, Puerto Rico and all states.

## BALANCE SHEET

ADMITTED ASSETS (\$000)		12/31/10	12/31/09	'10%	'09%
Bonds .....		391,807	486,128	34.2	42.8
Common stock .....		21,951	64,597	1.9	5.7
Cash & short-term invest .....		392,490	320,703	34.3	28.2
Total invested assets .....		806,247	871,428	70.4	76.7
Premium balances .....		182,404	137,507	15.9	12.1
Accrued interest .....		2,118	2,821	0.2	0.2
All other assets .....		153,867	124,662	13.4	11.0
Total assets .....		1,144,635	1,136,418	100.0	100.0

LIABILITIES & SURPLUS (\$000)		12/31/10	12/31/09	'10%	'09%
Loss & LAE reserves .....		444,189	459,133	38.8	40.4
Unearned premiums .....		160,733	146,225	14.0	12.9
Conditional reserve funds .....		12,339	10,645	1.1	0.9
All other liabilities .....		106,480	67,193	9.3	5.9
Total liabilities .....		723,741	683,196	63.2	60.1
Capital & assigned surplus .....		391,112	386,850	34.2	34.0
Unassigned surplus .....		29,781	66,373	2.6	5.8
Total policyholders' surplus .....		420,894	453,223	36.8	39.9
Total liabilities & surplus .....		1,144,635	1,136,418	100.0	100.0

## SUMMARY OF 2010 OPERATIONS (\$000)

Statement of Income	12/31/10	Funds Provided from Operations	12/31/10
Premiums earned .....	297,238	Premiums collected .....	314,404
Losses incurred .....	148,150	Benefit & loss related pmts .....	235,848
LAE incurred .....	62,416	LAE & undrw expenses paid .....	118,707
Undrw expenses incurred .....	97,222	Undrw cash flow .....	-40,152
Net underwriting income .....	-10,550	Investment income .....	5,137
Net investment income .....	5,112	Other income/expense .....	-8,194
Other income/expense .....	-8,194	Pre-tax cash operations .....	-43,209
Pre-tax oper income .....	-13,633	Income taxes pd (recov) .....	8,009
Realized capital gains .....	13,432	Net oper cash flow .....	-51,218
Income taxes incurred .....	330		
Net income .....	-530		

## Ultimate Parent: QBE Insurance Group Limited

### QBE REINSURANCE CORPORATION

Harrisburg, PA

88 Pine St, 4th Floor, Wall Street Plz, New York, NY 10005-1801

Web: [www.qbeusa.com](http://www.qbeusa.com)

Tel: 212-422-1212

AMB#: 004069

Ultimate Parent#: 085434

Fax: 212-422-1313

NAIC#: 10219

FEIN#: 23-1641984

## BEST'S FINANCIAL STRENGTH RATING

**Based on our opinion of the consolidated Financial Strength of the company and its insurance subsidiaries, the company is assigned a Best's Financial Strength Rating of A (Excellent). The company's Financial Size Category is Class XI.**

## RATING RATIONALE

The following text is derived from the report of QBE Re Group - US.

**Rating Rationale:** The rating reflects QBE Re Group - US's adequate risk-adjusted capital position as well as support from the group's ultimate parent, QBE Insurance Group Limited (QBE), one of Australia's largest insurance/reinsurance organizations, which provides capital and facilitates reinsurance support. Management continues to expand its North American operations, and A.M. Best understands that QBE Re Group - US is strategically important to the organization's long-term plans. Partially offsetting the aforementioned positive rating factors are adverse accident year loss reserve development, much of which is related to business now in run-off, and an expense ratio that remains elevated relative to the industry composite average. The outlook is based on A.M. Best's view that the group will continue to generate favorable operating results, and maintain capitalization that supports the expected growth in premium resulting from the writing of new, affiliated business acquired by QBE.

Broadly speaking, QBE the Americas Division, which includes QBE Re Group - US, has been evolving as several acquisitions have helped expand its platform. The strategic importance of the group will be further underscored over the near term considering the role its member companies, particularly QBE Insurance Corporation (QBE Insurance), will play in reinsuring the book of lender-placed hazard insurance written by Balboa Insurance Group (Balboa) following QBE's acquisition of the Balboa portfolio earlier in 2011. In addition, the previous acquisition of the ZC Sterling agency, since renamed Sterling National, then QBE FIRST, has generated additional premium volume for both QBE Insurance and QBE Specialty Insurance Company (QBE Specialty), including lender-placed insurance coverage. QBE Specialty also expanded its footprint by having the business of the former Praetorian Specialty Insurance Company merged into QBE Specialty's book of business. As the QBE the Americas enterprise continues to integrate the newer acquisitions and streamline the operations of those entities acquired previously, business plans will continue to be modified to meet management's strategic objectives. Historically, QBE Insurance and QBE Specialty ceded approximately 80% of their business to QBE Reinsurance Corporation; however, this reinsurance relationship was terminated in early 2009, and going forward both entities entered into a reduced quota share agreement with QBE's Bermuda-based captive reinsurer. The utilization of affiliated reinsurance and high-quality third-party reinsurers helps mitigate any weakening of the group's balance sheet from the additional business.

**Best's Financial Strength Rating: A**

**Outlook: Stable**

## FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
10/12/11	A	08/28/08	A g
10/01/10	A	06/06/07	A g
09/30/09	A g	01/05/07	A gu
04/28/09	A g	12/14/06	A gu

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## KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data						Profitability			Leverage			Liquidity	
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2006	-2	468,754	66,933	44,682	1,171,665	545,583	93.5	4.7	15.1	10.7	0.9	2.0	188.1	121.0
2007	...	482,206	23,552	11,971	1,258,549	569,153	106.4	4.1	4.8	13.1	0.8	2.1	183.6	117.6
2008	...	667,551	-64,112	-11,944	1,438,772	538,768	109.1	2.5	-11.8	9.0	1.2	2.9	160.9	114.5
2009	...	185,039	84,255	67,084	1,091,397	580,495	97.9	1.1	23.9	10.6	0.3	1.2	215.3	70.8
2010	...	357,328	29,079	27,681	1,167,982	587,264	91.9	0.6	8.5	4.0	0.6	1.6	204.1	117.2
5-Yr	100.3	2.5	6.4	...	...	...	...	...	...	...	...	...	...	...

(\* Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Reinsurance Composite.

## BUSINESS REVIEW

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US operations are conducted through QBE Reinsurance Corporation (QBE Reinsurance), QBE Insurance Corporation (QBE Insurance) and QBE Specialty Insurance Company (QBE Specialty). The group underwrites a diverse mix of business which includes private passenger and commercial auto liability, commercial multi-peril, health, property proportional, catastrophe, property excess of loss and casualty business.

QBE Reinsurance is a treaty and facultative reinsurer that targets specialized, unique types of business that are less subject to the broad market swings. The group underwrites property, casualty and health reinsurance through reinsurance intermediaries. Business is written on both a pro rata and excess of loss basis with increased focus in recent years on excess of loss business. Business is derived from national, regional, and international cedants with the remainder coming from program managers, captives, pools and associations. In 1999, QBE Reinsurance established a strategic alliance with Reaseguradora Del Istmo (Del Istmo). Through this alliance, Del Istmo underwrites and services, on behalf of QBE Re Group - US, a targeted Latin American reinsurance portfolio in selected countries, focusing on shorter-tailed property lines.

QBE Insurance, which began writing direct business in 1998, focuses on main street commercial property and casualty business, commercial auto and non-standard auto. Business is mostly written through program managers and general agents. In 2011, QBE Insurance began reinsuring the majority of the business that QBE's Americas Division is assuming from the Balboa Insurance Group (Balboa) companies through the acquisition of Balboa's lender-placed hazard insurance portfolio. In addition, the company is also continuing to write more of the lender-placed hazard business produced by affiliate QBE FIRST (QBE Financial Institutions Risk Services, Inc.) (formerly Sterling National Corporation).

QBE Specialty is an excess and surplus lines writer that was formed by the group in 2002 and began writing business through existing program managers in late 2003. As noted above, it expanded its writing in 2008 with QBE's acquisition of ZC Sterling and through the merging of business from the former Praetorian Specialty Insurance Company.

## 2010 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Reins-Property .....	...	142,290	39.8	47.2	115,889
Reins-Casualty .....	...	122,124	34.2	55.4	196,441
Oth Liab Occur .....	...	19,347	5.4	14.3	15,945
Allied Lines .....	...	14,392	4.0	97.7	4,655
Fire .....	...	13,726	3.8	31.0	8,113
Homeowners.....	...	9,755	2.7	88.1	6,552
Priv Pass Auto Liab.....	...	8,486	2.4	38.9	9,869
Com'l MultiPeril.....	...	8,350	2.3	113.0	20,775
Group A & H.....	...	8,240	2.3	91.5	10,971
All Other.....	...	10,616	3.0	5.5	21,441
Totals.....	...	357,328	100.0	53.4	410,651

## FINANCIAL PERFORMANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US's overall operating performance has generally been favorable over the long term but has exhibited some deterioration in the last few years due primarily to less favorable underwriting results and declining investment income. As a result, the group's pretax return on revenue and total return on surplus over the recent five year period are low in comparison to industry composite norms. Underwriting results have been impacted by unfavorable loss reserve development on previously acquired books of business. Management believes that more adequate reserves have been established and that reserve development should not be a drag on earnings going forward. Underwriting results have also been impacted by increased expenses during the recent period of premium growth as the additional expenses associated with growth are immediately recognized under statutory accounting rules while the premium is earned over time. Additionally, the higher commission expense associated with the lender-placed business and the higher average commission structure for certain new reinsurance contracts also contributed to increased underwriting losses in 2010 and through the first half of 2011. Future earnings remain susceptible to volatility from catastrophe losses. However, the group continues to manage its catastrophe exposure, with all aggregates maintained on a sum-insured basis and most contracts containing an event limitation. The group also maintains a conservative retrocessional program.

Looking forward, the historical profitability of the newly acquired books of lender-placed hazard insurance business from both Balboa and produced by QBE FIRST is expected to greatly benefit the underwriting performance of the group. While the earnings and overall operating performance QBE Re Group - US has exhibited some deterioration, the group remains core to QBE the Americas and to the overall QBE strategy.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2006	15.1	6.4	93.5	84.6	52.7	21.4	91.0	48.0
2007	4.8	1.7	106.4	99.1	31.6	11.3	91.6	59.0
2008	-11.8	-8.2	109.1	104.7	24.1	-13.8	100.8	72.0
2009	23.9	13.8	97.9	95.0	39.9	20.7	92.7	59.1
2010	8.5	1.8	91.9	90.4	39.3	14.8	94.5	60.4
5-Yr	6.4	3.1	100.3	95.0	37.6	11.1	94.1	59.6

## UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2006	20,257	49.6	9.9	59.5	27.7	6.3	34.0	...	93.5
2007	-27,229	59.1	9.3	68.4	29.6	8.3	38.0	...	106.4
2008	-91,672	65.9	9.1	74.9	27.9	6.3	34.2	...	109.1
2009	73,735	56.3	1.9	58.2	26.2	13.5	39.7	...	97.9
2010	23,710	53.4	7.6	61.1	23.3	7.5	30.8	...	91.9
5-Yr	...	57.5	7.9	65.4	27.3	7.6	34.9	...	100.3

# Best's Rating Report



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## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inc. Growth (%)	Inv. Yield (%)
2006	39,328	-3,019	-9,945	144.0	4.7	3.1	17.7	6.3
2007	36,317	-26	-2,434	-7.7	4.1	3.8	-24.7	4.4
2008	24,055	40,305	-33,218	-33.8	2.5	3.2	-13.9	3.9
2009	10,109	-11,131	10,338	-58.0	1.1	1.0	21.0	4.7
2010	5,262	15,117	-17,214	-47.9	0.6	0.3	-1.0	4.0
5-Yr	...	...	...	-8.6	2.5	2.3	-1.8	4.6

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2010 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
	2009	2010	2009	
Long-term bonds .....	356,015	37.5	34.6	16.1
Stocks .....	23,297	2.5	7.0	-62.3
Affiliated Investments .....	355,137	37.4	26.9	48.9
Other Inv Assets .....	216,042	22.7	31.5	-22.6
Total .....	950,491	100.0	100.0	7.3

## 2010 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class		Struc. Secur. (%)	Struc. Secur. (% of PHS)
				1-2 (%)	3-6 (%)		
Governments .....	11.1	0.3	2.8	100.0	...	...	...
Special Revenue .....	0.4	-3.4	6.1	100.0	...	...	...
Corporates .....	88.4	0.6	2.9	100.0	...	...	...
Total all bonds ..	100.0	0.6	2.9	100.0	...	...	...

## CAPITALIZATION

The following text is derived from the report of QBE Re Group - US.

The group maintains adequate capitalization at the current rating level based on Best's Capital Adequacy Ratio (BCAR). Loss reserve leverage has increased in recent years but remains in line with composite norms while net premium leverage has grown to double the composite average through the group's steady, acquisition-led, growth in premium over the last several years. Accordingly, net underwriting leverage is elevated, relative to the composite, due to the higher premium leverage. The increase in underwriting leverage measures primarily reflects the increase in business produced by QBE FIRST. In addition, the group has been successful in accessing new growth opportunities in the primary market, largely focusing on program books of business. Leverage measures will likely continue to be impacted by strategic repositioning as the group incorporates the business from its most recent acquisitions, specifically those completed in 2011. The capital adequacy of the group acknowledges the capital contributions provided by QBE, evidencing a long history of explicit parental support.

Capital generation from operations has been uneven during the last five years, largely driven by underwriting results, and impacted in certain years by capital contributions and/or dividends paid to the parent company. Management anticipates future surplus growth to be generated through operations with parental support, as necessary, to fund planned growth strategies. Ultimately, A.M. Best expects the group to sustain its capital adequacy by generating favorable operating returns, considering the historical profitability of the Balboa and QBE FIRST books of business, and not having to depend on parental contributions.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth					Change in PHS	PHS Growth (%)
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax			
2006	66,933	-12,965	-23,750	-24,120		6,099	1.1
2007	23,552	-2,460	2,530	-52		23,570	4.3
2008	-64,112	7,087	12,763	13,876		-30,385	-5.3
2009	84,255	-793	-32,342	-9,393		41,727	7.7
2010	29,079	-2,097	...	-20,213		6,769	1.2
5-Yr	139,707	-11,228	-40,799	-39,901		47,779	...

## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			—Dividend Requirements—		
		Cap. Stock/Contrib. Cap.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2006	545,583	91.8	5.3	2.9	-23,750	35.5	53.2
2007	569,153	93.7	7.0	-0.7	-30,000	127.4	250.6
2008	538,768	101.4	7.0	-8.3	...	...	...
2009	580,495	88.5	4.8	6.7	...	...	...
2010	587,264	87.5	4.8	7.7	...	...	...

## LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2006	0.9	0.7	2.0	3.4	0.3	0.7	1.6	2.2
2007	0.8	0.8	2.1	3.3	0.3	0.7	1.6	2.1
2008	1.2	1.0	2.9	4.1	0.3	0.8	1.8	2.4
2009	0.3	0.6	1.2	1.5	0.3	0.7	1.5	2.0
2010	0.6	0.7	1.6	2.1	0.2	0.5	1.1	1.5

Current BCAR: 157.9

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2006	-2	99.8	768,276	7.9	468,754	9.7	443,485	7.4
2007	...	100.0	793,800	3.3	482,206	2.9	493,985	11.4
2008	...	...	955,324	20.3	667,551	38.4	543,746	10.1
2009	...	...	264,334	-72.3	185,039	-72.3	352,289	-35.2
2010	...	...	489,997	85.4	357,328	93.1	343,793	-2.4
5-Yr CAGR	...	-99.9	...	-7.2	...	-3.5	...	-3.6
5-Yr Chg	...	100.0	...	-31.2	...	-16.4	...	-16.8

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to PHS (%)		Unpaid Reserves @12/10	Unpaid Res. to Develop. (%)
			Orig. (%)	PHS (%)		
2005	341,887	432,408	26.5	16.8	104.7	47,107
2006	388,687	505,717	30.1	21.5	114.0	77,636
2007	446,013	528,172	18.4	14.4	106.9	120,597
2008	558,824	585,924	4.8	5.0	107.8	150,439
2009	355,869	362,442	1.8	1.1	102.9	262,903
2010	403,059	403,059	...	...	117.2	403,059

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Unpaid Reserves @12/10	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2006	161,461	202,315	25.3	30,529	62.0	96.0
2007	174,709	201,425	15.3	42,961	61.3	99.3
2008	241,313	244,302	1.2	29,842	64.6	98.8
2009	160,873	151,672	-5.7	112,464	52.1	91.8
2010	140,156	140,156	...	140,156	59.0	89.9

# Best's Rating Report

## ASBESTOS & ENVIRONMENTAL (A&E) RESERVE ANALYSIS

Year	Company					Industry Composite				
	Net A&E Reserve (\$000)	Reserve Retention (%)	IBNR Mix (%)	Survival Ratio (3yr)	Comb Net Ratio Impact (1 yr)	Comb Net Ratio Impact (3 yr)	Survival Ratio (3 yr)	Comb Net Ratio Impact (1 yr)	Comb Net Ratio Impact (3 yr)	
2006	489	83.8	...	...	0.1	...	...	0.5	...	
2007	451	85.9	...	...	0.1	...	...	0.7	...	
2008	468	84.9	...	1.9	0.0	0.1	7.4	0.3	0.5	
2009	502	84.5	...	2.9	0.0	0.0	7.7	0.6	0.5	
2010	724	88.7	...	2.0	0.3	0.1	7.8	0.7	0.5	

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite		
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)
2006	756,608	70.6	83.8	138.7	88.6	42.6	56.6
2007	718,900	69.6	71.6	126.3	90.0	38.8	52.5
2008	651,338	80.7	67.5	120.9	88.2	44.4	58.9
2009	204,914	42.4	21.6	35.3	86.4	34.6	46.2
2010	289,364	77.7	26.7	49.3	87.9	25.1	33.3

## 2010 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
Foreign Affiliates.....	43,905	49,773	31,032	-416	124,294
US Insurers.....	7,099	9,192	73	-4,579	11,785
Other Non-US.....	18,867	7,759	48	-6,059	20,615
Total (ex US Affils).....	69,871	66,724	31,153	-11,054	156,694
Grand Total.....	69,871	66,724	31,153	-11,054	156,694

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company					Industry Composite		
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2006	...	...	...	10.7	10.7	53.6	1.2	48.4
2007	...	...	...	13.1	13.1	56.1	1.3	45.9
2008	...	...	...	9.0	9.0	50.6	3.1	47.3
2009	...	...	...	10.6	10.6	41.1	2.3	50.1
2010	...	...	...	4.0	4.0	60.5	2.1	34.8

## LIQUIDITY

The following text is derived from the report of QBE Re Group - US.

The group's current and overall liquidity measures closely approximate industry composite averages. The overall liquidity position is supported by the generation of positive operating cash flows. Operating cash flow has increased substantially in recent years because of increased premium collected. The group maintains a conservative investment philosophy which allocates a substantial amount of the overall portfolio to cash and cash equivalents resulting in an above average quick liquidity ratio. The portfolio's average fixed-income maturity is relatively short at approximately three years. Additionally, the group's claims payment pattern is also short given the profile of its health, property and short-tail casualty business.

## LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2006	83.5	93.0	188.1	9.7	66.4	125.6	176.0	4.4
2007	84.0	91.9	183.6	3.3	55.8	117.2	174.5	3.2
2008	75.1	85.6	160.9	4.8	49.8	116.8	169.9	5.3
2009	93.1	128.3	215.3	3.7	58.2	125.9	181.5	4.2
2010	63.9	104.1	204.1	2.6	51.9	122.2	205.8	3.0

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company					Industry Composite	
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)
2006	56,855	80,803	125,993	115.5	121.0	114.2	141.6
2007	39,016	82,301	96,429	108.4	117.6	112.0	114.7
2008	44,936	81,211	110,278	108.0	114.5	106.6	122.7
2009	-147,720	-133,607	-306,160	67.7	70.8	112.6	136.2
2010	51,471	50,056	-62,266	118.2	117.2	105.1	134.0

## HISTORY

This company was incorporated February 25, 1964 under the laws of Pennsylvania and began business on October 1 of the same year as American Overseas Reinsurance Company. On January 1, 1989, the name was changed to American Royal Reinsurance Company. The company was acquired by QBE Insurance Group Limited (Australia) on November 24, 1993, and the name was changed to Sydney Reinsurance Corporation. The current name, QBE Reinsurance Corporation, was adopted on November 8, 2000.

During December 1994, QBE Insurance Group Limited contributed all of the issued and outstanding capital stock of the Sequoia Insurance Company, a California domiciled property and casualty insurer, to QBE Reinsurance Corporation, which resulted in an increase in surplus of approximately \$19,800,000.

In August 1995, QBE Reinsurance Corporation sold its 100% ownership interest in Sequoia Insurance Company of California to Physician's Insurance Company of Ohio. As part of the sale agreement, all business written by Sequoia is fully reinsured by QBE Reinsurance Corporation. QBE Insurance Group Limited has guaranteed this agreement, with no risk retained by QBE Reinsurance.

On December 31, 1996, QBE Reinsurance Corporation acquired all of the issued and outstanding capital stock of Melbourne Reinsurance Corporation (subsequently renamed QBE Insurance Corporation) as a contribution to surplus from its immediate parent, QBE Holdings, Inc. Through 1996, Melbourne Reinsurance Corporation was QBE Reinsurance Corporation's indirect parent. QBE Insurance Corporation acts as a direct writer in support of the group's reinsurance operation.

Paid up capital of \$30,000,000 consists of 150,000 common shares at \$200 par value each.

## MANAGEMENT

All of the outstanding capital stock is held by QBE Holdings, Inc., New York. The latter had been sold (under the name Royal Re American Holdings, Inc.) by Royal Reinsurance Company, Limited., a subsidiary of Royal Insurance plc, (London) to Sydney Reinsurance Group, Limited, on November 24, 1993. Royal had previously acquired it from Marsh & McLennan Companies, Inc. on October 25, 1983. Prior to April 6, 1979, ownership resided with Balis & Co., Inc., Philadelphia, Pennsylvania, a reinsurance intermediary, which is a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. QBE Holdings, Inc. is a wholly-owned subsidiary of QBE Investments (North America) Inc.

**Officers:** President and Chief Executive Officer, John Rumpler; Senior Executive Vice President and Chief Underwriting Officer, James J. Fiore; Executive Vice President, Treasurer and Chief Financial Officer, Christopher C. Fish; Senior Vice President and Chief Risk Officer, Shaun Flynn; Senior Vice President and Chief Claim Officer, Dean Harring; Senior Vice President and Chief Actuary, Nicholas Pastor; Senior Vice Presidents, Bruce D. Carlino, Daniel J. Czabaj, Nancy L. Kelly (Human Resources), Thomas Leonardo, Michael Meyer, Robert J. Mezzasalma (Reinsurance), Celso M. Moreira, Stephen T. Morgan; Secretary and Chief Legal Officer, Peter T. Maloney (Corporate).

**Directors:** Harvey Bazaar, Peter Christen, Rod Farrell, James J. Fiore, Christopher C. Fish, Stephen Fitzpatrick, Alan J. Levin, Vince McLennan, Robert Mezzasalma, Francis M. O'Halloran, Anthony R. Przybyszewski, John Rumpler.

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# Best's Rating Report



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## REGULATORY

An examination of the financial condition was made as of December 31, 2007, by the insurance department of Pennsylvania. The 2010 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, Sr. Vice President and Chief Actuary.

**Territory:** The company is licensed in the District of Columbia, Puerto Rico, AZ, AR, CA, DE, FL, GA, HI, ID, IL, IN, IA, KS, LA, MI, MN, MS, NE, NV, NH, NJ, NY, OH, OK, OR, PA, TX, UT, VA, WA, WV and WI. Credit is allowed for reinsurance in AL, AK, CO, CT, KY, ME, MD, MA, MT, NM, NC, ND, RI, SC, SD, TN, VT and WY, as it is accredited or licensed in other states. Credit is allowed for reinsurance in Missouri, as it meets state requirements other than licensing or accreditation.

## REINSURANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US is both a provider and buyer of reinsurance protection. Reinsurance protection is purchased for the entire QBE the Americas Division as a whole. From year to year, the program purchased is modified based on the division's needs.

## BALANCE SHEET

### ADMITTED ASSETS (\$000)

	12/31/10	12/31/09	'10%	'09%
Bonds .....	356,015	306,581	30.5	28.1
Common stock .....	23,297	61,767	2.0	5.7
Cash & short-term invest .....	214,774	277,040	18.4	25.4
Investments in affiliates .....	354,691	238,107	30.4	21.8
Real estate, offices .....	445	466	0.0	0.0
Total invested assets .....	949,223	883,961	81.3	81.0
Premium balances .....	151,027	131,901	12.9	12.1
Accrued interest .....	1,268	2,096	0.1	0.2
All other assets .....	66,465	73,440	5.7	6.7
Total assets .....	1,167,982	1,091,397	100.0	100.0

### LIABILITIES & SURPLUS (\$000)

	12/31/10	12/31/09	'10%	'09%
Loss & LAE reserves .....	410,651	363,057	35.2	33.3
Unearned premiums .....	132,415	118,880	11.3	10.9
Conditional reserve funds .....	8,592	3,906	0.7	0.4
All other liabilities .....	29,060	25,059	2.5	2.3
Total liabilities .....	580,719	510,902	49.7	46.8
Capital & assigned surplus .....	542,190	541,840	46.4	49.6
Unassigned surplus .....	45,074	38,655	3.9	3.5
Total policyholders' surplus .....	587,264	580,495	50.3	53.2
Total liabilities & surplus .....	1,167,982	1,091,397	100.0	100.0

## SUMMARY OF 2010 OPERATIONS (\$000)

Statement of Income	12/31/10	Funds Provided from Operations	12/31/10
Premiums earned .....	343,793	Premiums collected .....	334,732
Losses incurred .....	183,667	Benefit & loss related pmts	152,463
LAE incurred .....	26,245	LAE & undrw expenses paid	130,798
Undrw expenses incurred	110,170	Undrw cash flow .....	51,471
Net underwriting income	23,710	Investment income .....	5,671
Net investment income .....	5,262	Other income/expense ...	107
Other income/expense ...	107	Pre-tax cash operations	57,248
Pre-tax oper income ...	29,079	Income taxes pd (recov)...	7,193
Realized capital gains .....	15,117	Net oper cash flow .....	50,056
Income taxes incurred .....	16,514		
Net income .....	27,681		

## Ultimate Parent: QBE Insurance Group Limited

### QBE INSURANCE CORPORATION

Harrisburg, PA

88 Pine St, 4th Fl, Wall St Plz, New York, NY 10005-1801

Web: [www.qbeusa.com](http://www.qbeusa.com)

Tel: 212-422-1212

AMB#: 002739

Ultimate Parent#: 085434

Fax: 212-422-1313

NAIC#: 39217

FEIN#: 22-2311816

## BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the property/casualty members of QBE Re Group - US, which operate under a group structure, each group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class XI, which is the Financial Size Category of the group.

## RATING RATIONALE

**Rating Rationale:** The group rating has been extended to QBE Insurance Corporation based on its strategic role within the group, common ownership, common management and the explicit parental support provided through significant internal reinsurance by an affiliated, captive reinsurer, Equator Reinsurances Limited.

The following text is derived from the report of QBE Re Group - US.

The rating reflects QBE Re Group - US's adequate risk-adjusted capital position as well as support from the group's ultimate parent, QBE Insurance Group Limited (QBE), one of Australia's largest insurance/reinsurance organizations, which provides capital and facilitates reinsurance support. Management continues to expand its North American operations, and A.M. Best understands that QBE Re Group - US is strategically important to the organization's long-term plans. Partially offsetting the aforementioned positive rating factors are adverse accident year loss reserve development, much of which is related to business now in run-off, and an expense ratio that remains elevated relative to the industry composite average. The outlook is based on A.M. Best's view that the group will continue to generate favorable operating results, and maintain capitalization that supports the expected growth in premium resulting from the writing of new, affiliated business acquired by QBE.

Broadly speaking, QBE the Americas Division, which includes QBE Re Group - US, has been evolving as several acquisitions have helped expand its platform. The strategic importance of the group will be further underscored over the near term considering the role its member companies, particularly QBE Insurance Corporation (QBE Insurance), will play in reinsuring the book of lender-placed hazard insurance written by Balboa Insurance Group (Balboa) following QBE's acquisition of the Balboa portfolio earlier in 2011. In addition, the previous acquisition of the ZC Sterling agency, since renamed Sterling National, then QBE FIRST, has generated additional premium volume for both QBE Insurance and QBE Specialty Insurance Company (QBE Specialty), including lender-placed insurance coverage. QBE Specialty also expanded its footprint by having the business of the former Praetorian Specialty Insurance Company merged into QBE Specialty's book of business. As the QBE the Americas enterprise continues to integrate the newer acquisitions and streamline the operations of those entities acquired previously, business plans will continue to be modified to meet management's strategic objectives. Historically, QBE Insurance and QBE Specialty ceded approximately 80% of their business to QBE Reinsurance Corporation; however, this reinsurance relationship was terminated in early 2009, and going forward both entities entered into a reduced quota share agreement with QBE's Bermuda-based captive reinsurer. The utilization of affiliated reinsurance and high-quality third-party reinsurers helps mitigate any weakening of the group's balance sheet from the additional business.

**Best's Financial Strength Rating: A g**

**Outlook: Stable**

# Best's Rating Report



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## FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
10/12/11	A g	08/28/08	A r
10/01/10	A g	06/06/07	A r
09/30/09	A g	01/05/07	A ru
04/28/09	A g	12/14/06	A ru

## KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data					
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
2006	701,142	141,771	13,934	5,679	478,983	137,394
2007	605,075	108,406	22,610	15,786	469,671	161,584
2008	616,744	131,625	-12,905	-4,385	610,502	272,259
2009	725,185	369,406	-55,076	-57,779	769,394	238,107
2010	894,515	436,502	-44,929	-39,980	1,057,089	354,691

  

Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2006	88.6	2.6	13.0	8.6	1.0	3.5	140.3	123.2
2007	98.5	3.7	17.4	12.5	0.7	2.6	152.5	68.4
2008	113.9	1.4	-10.1	4.8	0.5	1.7	180.6	197.6
2009	112.8	1.0	-19.4	7.0	1.6	3.8	146.1	167.6
2010	108.6	0.3	-11.5	1.4	1.2	3.2	151.2	129.1
5-Yr	106.7	1.3	-7.3	...	...	...	...	...

(\* Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Private Passenger Standard Auto & Homeowners Composite.

## BUSINESS REVIEW

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US operations are conducted through QBE Reinsurance Corporation (QBE Reinsurance), QBE Insurance Corporation (QBE Insurance) and QBE Specialty Insurance Company (QBE Specialty). The group underwrites a diverse mix of business which includes private passenger and commercial auto liability, commercial multi-peril, health, property proportional, catastrophe, property excess of loss and casualty business.

QBE Reinsurance is a treaty and facultative reinsurer that targets specialized, unique types of business that are less subject to the broad market swings. The group underwrites property, casualty and health reinsurance through reinsurance intermediaries. Business is written on both a pro rata and excess of loss basis with increased focus in recent years on excess of loss business. Business is derived from national, regional, and international cedants with the remainder coming from program managers, captives, pools and associations. In 1999, QBE Reinsurance established a strategic alliance with Reaseguradora Del Istmo (Del Istmo). Through this alliance, Del Istmo underwrites and services, on behalf of QBE Re Group - US, a targeted Latin American reinsurance portfolio in selected countries, focusing on shorter-tailed property lines.

QBE Insurance, which began writing direct business in 1998, focuses on main street commercial property and casualty business, commercial auto and non-standard auto. Business is mostly written through program managers and general agents. In 2011, QBE Insurance began reinsuring the majority of the business that QBE's Americas Division is assuming from the Balboa Insurance Group (Balboa) companies through the acquisition of Balboa's lender-placed hazard insurance portfolio. In addition, the company is also continuing to write more of the lender-placed hazard business produced by affiliate QBE FIRST (QBE Financial Institutions Risk Services, Inc.) (formerly Sterling National Corporation).

QBE Specialty is an excess and surplus lines writer that was formed by the group in 2002 and began writing business through existing program managers in late 2003. As noted above, it expanded its writing in 2008 with QBE's acquisition of ZC Sterling and through the merging of business from the former Praetorian Specialty Insurance Company.

## 2010 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Com'l MultiPeril.....	350,070	133,599	30.6	46.0	112,506
Homeowners.....	1,538	58,022	13.3	30.7	9,169
Group A & H.....	148,857	51,320	11.8	68.2	23,662
Priv Pass Auto Liab.....	65,544	43,248	9.9	56.2	47,760
Credit.....	87,220	43,059	9.9	11.0	8,967
Farmowners.....	49,514	30,569	7.0	105.5	28,391
Comm'l Auto Liab.....	25,590	19,662	4.5	54.2	17,337
Auto Physical.....	24,115	16,927	3.9	58.7	7,090
Allied Lines.....	96,643	14,928	3.4	26.1	8,398
Oth Liab Occur.....	21,060	14,686	3.4	135.8	101,145
All Other.....	24,364	10,481	2.4	-22.1	600
Totals.....	894,515	436,502	100.0	51.3	365,024

**Geographical breakdown of direct premium writings (\$000):** California, \$110,486 (12.4%); Florida, \$103,629 (11.6%); New York, \$99,969 (11.2%); New Jersey, \$61,413 (6.9%); Pennsylvania, \$37,828 (4.2%); other jurisdictions, \$481,190 (53.8%).

## FINANCIAL PERFORMANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US's overall operating performance has generally been favorable over the long term but has exhibited some deterioration in the last few years due primarily to less favorable underwriting results and declining investment income. As a result, the group's pretax return on revenue and total return on surplus over the recent five year period are low in comparison to industry composite norms. Underwriting results have been impacted by unfavorable loss reserve development on previously acquired books of business. Management believes that more adequate reserves have been established and that reserve development should not be a drag on earnings going forward. Underwriting results have also been impacted by increased expenses during the recent period of premium growth as the additional expenses associated with growth are immediately recognized under statutory accounting rules while the premium is earned over time. Additionally, the higher commission expense associated with the lender-placed business and the higher average commission structure for certain new reinsurance contracts also contributed to increased underwriting losses in 2010 and through the first half of 2011. Future earnings remain susceptible to volatility from catastrophe losses. However, the group continues to manage its catastrophe exposure, with all aggregates maintained on a sum-insured basis and most contracts containing an event limitation. The group also maintains a conservative retrocessional program.

Looking forward, the historical profitability of the newly acquired books of lender-placed hazard insurance business from both Balboa and produced by QBE FIRST is expected to greatly benefit the underwriting performance of the group. While the earnings and overall operating performance QBE Re Group - US has exhibited some deterioration, the group remains core to QBE the Americas and to the overall QBE strategy.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2006	13.0	3.0	88.6	84.0	15.4	18.0	92.8	84.9
2007	17.4	4.4	98.5	92.8	12.4	10.8	96.5	88.2
2008	-10.1	-8.4	113.9	110.7	3.7	-6.0	103.7	97.1
2009	-19.4	-10.7	112.8	111.4	5.5	5.6	100.8	94.9
2010	-11.5	-10.2	108.6	108.1	4.5	8.4	101.2	95.3
5-Yr	-7.3	-6.2	106.7	104.5	8.3	7.3	99.0	92.1

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## UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio	Period Ending
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.			
2006	1,105	45.9	10.5	56.4	14.3	17.8	32.1	...	88.6	2006
2007	11,631	45.9	7.8	53.6	13.1	31.7	44.8	...	98.5	2007
2008	-19,226	61.9	10.5	72.5	10.9	30.4	41.4	...	113.9	2008
2009	-68,883	48.4	26.3	74.6	20.9	17.3	38.2	...	112.8	2009
2010	-52,448	51.3	15.6	66.9	26.4	15.3	41.7	...	108.6	2010
5-Yr	...	50.6	16.4	67.0	20.3	19.4	39.7	...	106.7	5-Yr

## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite		Period Ending
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Growth (%)	Inv. Yield (%)	
2006	4,902	-561	-1,587	38.6	2.6	1.4	17.0	4.7	2006
2007	7,421	-131	-9,170	51.4	3.7	-0.9	6.1	4.7	2007
2008	4,135	3,952	-13,787	-44.3	1.4	-1.9	-21.3	3.8	2008
2009	4,116	-3,495	30,367	-0.4	1.0	7.4	-11.7	3.4	2009
2010	2,028	3,797	9,675	-50.7	0.3	2.6	0.3	3.3	2010
5-Yr	...	...	...	-6.3	1.3	2.4	-2.5	4.0	5-Yr

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2010 Inv. Assets (\$000)		% of Invested Assets		Annual % Change
	Total	to Stmnt	2010	2009	
Long-term bonds	211,156	29.2	24.2	82.4	
Stocks	5,000	0.7	3.5	-70.2	
Affiliated Investments	225,715	31.2	29.2	61.3	
Other Inv Assets	282,341	39.0	43.2	36.5	
Total	724,212	100.0	100.0	51.1	

## 2010 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmnt Val (%)	Avg. Maturity (Yrs)	Class 1-2 (%)	Class 3-6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Corporates	84.4	0.3	2.8	100.0	...	...	...
Total all bonds	100.0	0.3	2.7	100.0	...	...	...

## CAPITALIZATION

The following text is derived from the report of QBE Re Group - US.

The group maintains adequate capitalization at the current rating level based on Best's Capital Adequacy Ratio (BCAR). Loss reserve leverage has increased in recent years but remains in line with composite norms while net premium leverage has grown to double the composite average through the group's steady, acquisition-led, growth in premium over the last several years. Accordingly, net underwriting leverage is elevated, relative to the composite, due to the higher premium leverage. The increase in underwriting leverage measures primarily reflects the increase in business produced by QBE FIRST. In addition, the group has been successful in accessing new growth opportunities in the primary market, largely focusing on program books of business. Leverage measures will likely continue to be impacted by strategic repositioning as the group incorporates the business from its most recent acquisitions, specifically those completed in 2011. The capital adequacy of the group acknowledges the capital contributions provided by QBE, evidencing a long history of explicit parental support.

Capital generation from operations has been uneven during the last five years, largely driven by underwriting results, and impacted in certain years by capital contributions and/or dividends paid to the parent company. Management anticipates future surplus growth to be generated through operations with parental support, as necessary, to fund planned growth strategies. Ultimately, A.M. Best expects the group to sustain its capital adequacy by generating favorable operating returns, considering the historical profitability of the Balboa and QBE FIRST books of business, and not having to depend on parental contributions.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Pretax Operating Income	Source of Surplus Growth			Change in PHS	PHS Growth (%)
		Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax		
2006	13,934	-2,148	24,000	-37,088	-1,302	-0.9
2007	22,610	-9,301	32,530	-21,650	24,190	17.6
2008	-12,905	-9,836	113,000	20,415	110,675	68.5
2009	-55,076	26,873	-32,342	26,393	-34,152	-12.5
2010	-44,929	13,472	130,000	18,042	116,585	49.0
5-Yr	-76,366	19,060	267,188	6,113	215,995	...

## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			Dividend Requirements		
		Cap. Stock/Contrib. Cap.	Other Surplus	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2006	137,394	118.5	...	-18.5	-8,000	57.4	140.9
2007	161,584	120.9	...	-20.9	...	...	...
2008	272,259	113.3	...	-13.3	...	...	...
2009	238,107	115.9	4.5	-20.4	...	...	...
2010	354,691	114.5	3.8	-18.3	...	...	...

## LEVERAGE ANALYSIS

Period Ending	Company			Industry Composite				
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2006	1.0	0.6	3.5	6.5	1.1	0.7	2.5	2.7
2007	0.7	0.5	2.6	4.7	1.1	0.7	2.4	2.6
2008	0.5	0.4	1.7	2.9	1.2	0.8	2.7	3.0
2009	1.6	1.3	3.8	8.3	1.1	0.7	2.6	2.8
2010	1.2	1.0	3.2	6.4	1.1	0.7	2.5	2.7

Current BCAR: 157.9

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2006	701,142	15.3	723,426	19.0	141,771	52.3	107,110	20.5
2007	605,075	-13.7	693,034	-4.2	108,406	-23.5	129,974	21.3
2008	616,744	1.9	713,788	3.0	131,625	21.4	128,172	-1.4
2009	725,185	17.6	772,299	8.2	369,406	180.7	284,433	121.9
2010	894,515	23.3	996,018	29.0	436,502	18.2	392,069	37.8
5-Yr CAGR	...	8.0	...	10.4	...	36.2	...	34.6
5-Yr Chg	...	47.1	...	63.8	...	368.8	...	341.1

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Develop. to PHS (%)	Unpaid Reserves @12/10	Unpaid Res. to Develop. (%)	
							2005
2006	73,777	99,701	35.1	18.9	93.1	43,322	43.5
2007	78,820	112,005	42.1	20.5	86.2	79,857	71.3
2008	96,746	134,642	39.2	13.9	105.0	148,116	110.0
2009	307,979	328,952	6.8	8.8	115.7	211,055	64.2
2010	361,761	361,761	...	...	92.3	361,761	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Unpaid Reserves @12/10	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2006	36,381	40,716	11.9	17,778	58.4	90.6
2007	32,774	41,598	26.9	36,535	61.6	106.4
2008	47,670	65,065	36.5	68,259	76.8	118.2
2009	109,973	112,911	2.7	62,939	69.2	107.3
2010	150,706	150,706	...	150,706	60.3	102.0

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## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	
2006	404,255	19.6	154.4	294.2	95.0	14.4	21.8	
2007	350,536	15.6	124.0	216.9	94.7	12.7	20.2	
2008	318,892	18.6	67.3	117.1	94.7	15.5	25.2	
2009	1,076,966	48.8	220.5	452.3	94.1	15.2	28.1	
2010	1,128,048	44.5	161.6	318.0	93.8	14.8	25.6	

## 2010 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	984	10,920	2,626	-849	13,681
Foreign Affiliates.....	104,455	125,025	150,039	-23,689	355,830
US Insurers.....	61,921	27,720	27,120	-4,566	112,195
Pools/Associations.....	32,503	10,409	3,712	-15	46,609
Other Non-US.....	37,096	12,638	9,597	-856	58,475
Total (ex US Affils).....	235,975	175,792	190,468	-29,126	573,109
Grand Total.....	236,959	186,712	193,094	-29,975	586,790

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company					Industry Composite		
	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2006	...	...	...	8.6	8.6	44.6	3.7	27.3
2007	...	...	...	12.5	12.5	43.0	3.4	22.6
2008	...	...	...	4.8	4.8	57.5	3.6	15.8
2009	...	...	...	7.0	7.0	58.8	3.8	19.3
2010	...	...	...	1.4	1.4	63.6	4.6	19.8

## LIQUIDITY

The following text is derived from the report of QBE Re Group - US.

The group's current and overall liquidity measures closely approximate industry composite averages. The overall liquidity position is supported by the generation of positive operating cash flows. Operating cash flow has increased substantially in recent years because of increased premium collected. The group maintains a conservative investment philosophy which allocates a substantial amount of the overall portfolio to cash and cash equivalents resulting in an above average quick liquidity ratio. The portfolio's average fixed-income maturity is relatively short at approximately three years. Additionally, the group's claims payment pattern is also short given the profile of its health, property and short-tail casualty business.

## LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2006	54.6	59.6	140.3	8.4	33.0	128.3	171.8	6.7
2007	49.8	55.4	152.5	20.4	32.9	129.3	174.1	6.3
2008	74.2	83.9	180.6	6.1	25.8	116.2	164.5	8.0
2009	53.0	64.1	146.1	18.1	28.4	119.1	168.8	6.4
2010	52.4	71.5	151.2	10.2	28.4	120.8	171.5	6.1

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)	
2006	20,746	25,128	43,794	120.5	123.2	107.2	111.8	
2007	-37,050	-35,922	-8,009	64.5	68.4	105.5	109.9	
2008	57,260	67,443	76,124	182.8	197.6	98.3	104.4	
2009	109,284	135,247	33,315	154.6	167.6	98.3	105.6	
2010	110,106	111,104	75,092	129.3	129.1	99.4	104.7	

## HISTORY

The company was incorporated on May 5, 1980 under the laws of Delaware as The Victory Reinsurance Company of America, Inc. and began business on October 21, 1980. Effective December 6, 1993, the name was changed to Melbourne Reinsurance Corporation. The current name, QBE Insurance Corporation, was adopted on January 10, 1997. In September 2002, the company redomesticated from Delaware to Philadelphia, Pennsylvania. Paid-in capital is \$4,887,500 which consists of 6,750,000 shares of common stock at a par value of \$0.65 per share and all 1,000,000 shares of preferred stock at \$0.50 per share.

## MANAGEMENT

The company is a wholly-owned subsidiary of QBE Reinsurance Corporation operating as a primary insurance company. On December 31, 1996, QBE Reinsurance Corporation acquired all of the issued and outstanding capital stock of Melbourne Reinsurance Corporation (subsequently renamed QBE Insurance Corporation) as a contribution to surplus from its immediate parent, Sydney Re Holdings, Inc.

From January 1, 1990 to March 31, 1993, administration of the company's affairs was under a service agreement with NRG Victory Canada Management Limited, Toronto, Ontario, Canada. On April 1, 1993, administration of the company's affairs was transferred to Universal Management Limited (UML) in Dublin, Ireland. UML is a member company of the QBE Insurance Group Limited (Australia). Effective September 30, 1997, the administration of the company's affairs was assumed by QBE Reinsurance Corporation, the company's immediate parent.

**Officers:** Chief Executive Officer, John Rumpfer; President, Stephen Fitzpatrick; Chief Risk Officer, Ming-I Huang; Senior Executive Vice President and Chief Underwriting Officer, James J. Fiore; Executive Vice President, Treasurer and Chief Financial Officer, Christopher C. Fish; Senior Vice President and Chief Claim Officer, Dean Haring; Senior Vice President and Chief Actuary, Nicholas Pastor; Senior Vice Presidents, Lance J. Albright, Edward M. Ashby, Mark Benson, Fabian Burstyn, Daniel J. Czabaj, James Henry, Nancy L. Kelly (Human Resources), Thomas Leonardo, Mitchell D. Luedtke, Celso M. Moreira, Stephen T. Morgan, Thomas A. Parker, Joel Yatskowitz; Secretary and Chief Legal Officer, Peter T. Maloney (Corporate).

**Directors:** Harvey J. Bazaar, Peter Christen, Rod Farrell, James J. Fiore, Christopher C. Fish, Stephen Fitzpatrick, Alan J. Levin, Vince McLenaghan, Robert Mezzasalma, Francis M. O'Halloran, Anthony R. Przybyszewski, John Rumpfer.

## REGULATORY

An examination of the financial condition was made as of December 31, 2007, by the insurance department of Pennsylvania. The 2010 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, Sr. Vice President and Chief Actuary.

**Territory:** The company is licensed in the District of Columbia and all states.

## REINSURANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US is both a provider and buyer of reinsurance protection. Reinsurance protection is purchased for the entire QBE the Americas Division as a whole. From year to year, the program purchased is modified based on the division's needs.

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## BALANCE SHEET

### ADMITTED ASSETS (\$000)

	12/31/10	12/31/09	'10%	'09%
Bonds .....	211,156	115,740	20.0	15.0
Common stock .....	5,000	16,758	0.5	2.2
Cash & short-term invest .....	281,363	206,271	26.6	26.8
Investments in affiliates .....	225,715	139,914	21.4	18.2
Total invested assets .....	723,234	478,684	68.4	62.2
Premium balances .....	213,384	207,558	20.2	27.0
Accrued interest .....	978	527	0.1	0.1
All other assets .....	119,493	82,626	11.3	10.7
Total assets .....	1,057,089	769,394	100.0	100.0

### LIABILITIES & SURPLUS (\$000)

	12/31/10	12/31/09	'10%	'09%
Loss & LAE reserves .....	365,024	309,576	34.5	40.2
Unearned premiums .....	183,332	138,900	17.3	18.1
Conditional reserve funds .....	3,137	4,736	0.3	0.6
All other liabilities .....	150,905	78,075	14.3	10.1
Total liabilities .....	702,398	531,287	66.4	69.1
Capital & assigned surplus .....	419,432	286,662	39.7	37.3
Unassigned surplus .....	-64,741	-48,555	-6.1	-6.3
Total policyholders' surplus .....	354,691	238,107	33.6	30.9
Total liabilities & surplus .....	1,057,089	769,394	100.0	100.0

### SUMMARY OF 2010 OPERATIONS (\$000)

Statement of Income	12/31/10	Funds Provided from Operations	12/31/10
Premiums earned .....	392,069	Premiums collected .....	485,906
Losses incurred .....	201,058	Benefit & loss related pmts .....	150,773
LAE incurred .....	61,282	LAE & undrw expenses paid .....	225,027
Undrw expenses incurred .....	182,177	Undrw cash flow .....	110,106
Net underwriting income .....	-52,448	Investment income .....	1,056
Net investment income .....	2,028	Other income/expense .....	5,491
Other income/expense .....	5,491	Pre-tax cash operations .....	116,653
Pre-tax oper income .....	-44,929	Income taxes pd (recov) .....	5,549
Realized capital gains .....	3,797	Net oper cash flow .....	111,104
Income taxes incurred .....	-1,153		
Net income .....	-39,980		

Ultimate Parent: QBE Insurance Group Limited

## QBE SPECIALTY INSURANCE COMPANY

Bismarck, ND

Wall Street Plaza, 88 Pine Street, 16th Floor, New York, NY 10005-1801

Web: [www.qbeusa.com](http://www.qbeusa.com)

Tel: 212-422-1212

Fax: 212-422-1313

AMB#: 012562

NAIC#: 11515

Ultimate Parent#: 085434

FEIN#: 55-0789681

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the property/casualty members of QBE Re Group - US, which operate under a group structure, each group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class XI, which is the Financial Size Category of the group.

## RATING RATIONALE

**Rating Rationale:** The group rating has been extended to QBE Specialty Insurance Company based on its strategic role within the group, common ownership, common management and the explicit parental support provided through significant internal reinsurance by an affiliated, captive reinsurer, Equator Reinsurances Limited.

The following text is derived from the report of QBE Re Group - US.

The rating reflects QBE Re Group - US's adequate risk-adjusted capital position as well as support from the group's ultimate parent, QBE Insurance Group Limited (QBE), one of Australia's largest insurance/reinsurance organizations, which provides capital and facilitates reinsurance support. Management continues to expand its North American operations, and A.M. Best understands that QBE Re Group - US is strategically important to the organization's long-term plans. Partially offsetting the aforementioned positive rating factors are adverse accident year loss reserve development, much of which is related to business now in run-off, and an expense ratio that remains elevated relative to the industry composite average. The outlook is based on A.M. Best's view that the group will continue to generate favorable operating results, and maintain capitalization that supports the expected growth in premium resulting from the writing of new, affiliated business acquired by QBE.

Broadly speaking, QBE the Americas Division, which includes QBE Re Group - US, has been evolving as several acquisitions have helped expand its platform. The strategic importance of the group will be further underscored over the near term considering the role its member companies, particularly QBE Insurance Corporation (QBE Insurance), will play in reinsuring the book of lender-placed hazard insurance written by Balboa Insurance Group (Balboa) following QBE's acquisition of the Balboa portfolio earlier in 2011. In addition, the previous acquisition of the ZC Sterling agency, since renamed Sterling National, then QBE FIRST, has generated additional premium volume for both QBE Insurance and QBE Specialty Insurance Company (QBE Specialty), including lender-placed insurance coverage. QBE Specialty also expanded its footprint by having the business of the former Praetorian Specialty Insurance Company merged into QBE Specialty's book of business. As the QBE the Americas enterprise continues to integrate the newer acquisitions and streamline the operations of those entities acquired previously, business plans will continue to be modified to meet management's strategic objectives. Historically, QBE Insurance and QBE Specialty ceded approximately 80% of their business to QBE Reinsurance Corporation; however, this reinsurance relationship was terminated in early 2009, and going forward both entities entered into a reduced quota share agreement with QBE's Bermuda-based captive reinsurer. The utilization of affiliated reinsurance and high-quality third-party reinsurers helps mitigate any weakening of the group's balance sheet from the additional business.

Best's Financial Strength Rating: **A g**

Outlook: **Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
10/12/11	A g	08/28/08	A r
10/01/10	A g	06/06/07	A r
09/30/09	A g	01/05/07	A ru
04/28/09	A g	12/14/06	A ru

### KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data					
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
2006	30,617	5,415	2,289	1,410	48,270	27,486
2007	26,541	4,929	2,220	1,305	44,897	28,054
2008	150,391	31,110	-2,129	-3,368	213,550	138,003
2009	528,402	270,689	3,963	-5,881	343,449	139,914
2010	611,235	264,245	17,154	9,936	520,237	225,715

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Period Ending	—Profitability—			—Leverage—			—Liquidity—		
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)	
2006	97.5	3.9	32.8	12.3	0.2	1.0	232.2	158.1	
2007	89.7	4.1	41.6	17.7	0.2	0.8	267.6	119.3	
2008	80.5	1.4	-16.2	2.2	0.2	0.8	282.7	114.1	
2009	81.4	1.9	2.1	2.8	1.9	3.4	169.6	221.9	
2010	91.2	0.7	6.8	...	1.2	2.5	177.3	149.4	
5-Yr	85.6	1.5	5.1	...	...	...	...	...	

(\* Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Surplus Lines Composite.

## BUSINESS REVIEW

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US operations are conducted through QBE Reinsurance Corporation (QBE Reinsurance), QBE Insurance Corporation (QBE Insurance) and QBE Specialty Insurance Company (QBE Specialty). The group underwrites a diverse mix of business which includes private passenger and commercial auto liability, commercial multi-peril, health, property proportional, catastrophe, property excess of loss and casualty business.

QBE Reinsurance is a treaty and facultative reinsurer that targets specialized, unique types of business that are less subject to the broad market swings. The group underwrites property, casualty and health reinsurance through reinsurance intermediaries. Business is written on both a pro rata and excess of loss basis with increased focus in recent years on excess of loss business. Business is derived from national, regional, and international cedants with the remainder coming from program managers, captives, pools and associations. In 1999, QBE Reinsurance established a strategic alliance with Reaseguradora Del Istmo (Del Istmo). Through this alliance, Del Istmo underwrites and services, on behalf of QBE Re Group - US, a targeted Latin American reinsurance portfolio in selected countries, focusing on shorter-tailed property lines.

QBE Insurance, which began writing direct business in 1998, focuses on main street commercial property and casualty business, commercial auto and non-standard auto. Business is mostly written through program managers and general agents. In 2011, QBE Insurance began reinsuring the majority of the business that QBE's Americas Division is assuming from the Balboa Insurance Group (Balboa) companies through the acquisition of Balboa's lender-placed hazard insurance portfolio. In addition, the company is also continuing to write more of the lender-placed hazard business produced by affiliate QBE FIRST (QBE Financial Institutions Risk Services, Inc.) (formerly Sterling National Corporation).

QBE Specialty is an excess and surplus lines writer that was formed by the group in 2002 and began writing business through existing program managers in late 2003. As noted above, it expanded its writing in 2008 with QBE's acquisition of ZC Sterling and through the merging of business from the former Praetorian Specialty Insurance Company.

## 2010 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Credit .....	254,550	129,492	49.0	1.2	11,579
Com'l MultiPeril.....	196,717	55,673	21.1	45.5	29,351
Inland Marine .....	80,272	24,267	9.2	9.5	4,416
Oth Liab Occur .....	35,296	24,142	9.1	51.3	31,763
Comm'l Auto Liab.....	28,977	20,631	7.8	54.6	16,673
Auto Physical .....	13,680	9,519	3.6	50.9	4,003
All Other.....	1,743	520	0.2	-35.4	678
Totals .....	611,235	264,245	100.0	25.8	98,462

**Geographical breakdown of direct premium writings (\$000):** Florida, \$250,217 (40.9%); Texas, \$141,407 (23.1%); California, \$90,343 (14.8%); Louisiana, \$69,053 (11.3%); Virginia, \$21,102 (3.5%); Aggregate Alien, \$3,297 (0.5%); other jurisdictions, \$35,816 (5.9%).

## FINANCIAL PERFORMANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US's overall operating performance has generally been favorable over the long term but has exhibited some deterioration in the last few years due primarily to less favorable underwriting results and declining investment income. As a result, the group's pretax return on revenue and total return on surplus over the recent five year period are low in comparison to industry composite norms. Underwriting results have been impacted by unfavorable loss reserve development on previously acquired books of business. Management believes that more adequate reserves have been established and that reserve development should not be a drag on earnings going forward. Underwriting results have also been impacted by increased expenses during the recent period of premium growth as the additional expenses associated with growth are immediately recognized under statutory accounting rules while the premium is earned over time. Additionally, the higher commission expense associated with the lender-placed business and the higher average commission structure for certain new reinsurance contracts also contributed to increased underwriting losses in 2010 and through the first half of 2011. Future earnings remain susceptible to volatility from catastrophe losses. However, the group continues to manage its catastrophe exposure, with all aggregates maintained on a sum-insured basis and most contracts containing an event limitation. The group also maintains a conservative retrocessional program.

Looking forward, the historical profitability of the newly acquired books of lender-placed hazard insurance business from both Balboa and produced by QBE FIRST is expected to greatly benefit the underwriting performance of the group. While the earnings and overall operating performance QBE Re Group - US has exhibited some deterioration, the group remains core to QBE the Americas and to the overall QBE strategy.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2006	32.8	6.0	97.5	76.9	33.0	18.4	80.7	65.8
2007	41.6	5.5	89.7	61.2	38.7	17.7	79.4	62.2
2008	-16.2	-5.0	80.5	70.8	24.3	-0.2	95.0	76.3
2009	2.1	-3.7	81.4	79.2	26.4	12.5	94.1	74.1
2010	6.8	5.2	91.2	90.3	20.2	9.8	100.6	79.4
5-Yr	5.1	0.7	85.6	83.3	28.9	11.3	89.3	71.1

## UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2006	852	42.0	11.9	53.9	28.3	15.3	43.6	...	97.5
2007	702	43.0	9.3	52.3	28.3	9.1	37.4	...	89.7
2008	-3,399	39.2	8.2	47.4	25.7	7.5	33.1	...	80.5
2009	-130	25.6	15.0	40.6	33.3	7.5	40.8	...	81.4
2010	14,749	25.8	10.2	36.1	41.3	13.9	55.2	...	91.2
5-Yr	...	26.6	12.1	38.7	36.4	10.5	47.0	...	85.6

## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company							Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)	
2006	1,437	-155	202	74.0	3.9	4.0	28.7	4.3	
2007	1,518	-8	214	5.6	4.1	4.7	14.2	4.4	
2008	1,287	-684	-816	-15.2	1.4	-0.2	3.5	4.4	
2009	4,092	-608	778	217.9	1.9	2.0	-7.2	4.0	
2010	2,298	207	-379	-43.8	0.7	0.6	7.6	4.1	
5-Yr	...	...	...	16.1	1.5	1.3	7.8	4.2	

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## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2010 Inv.	—% of Invested Assets—		Annual % Change
	Assets (\$000)	2010	2009	
Long-term bonds .....	222,354	51.6	45.7	75.6
Stocks .....	...	...	1.4	-99.9
Other Inv Assets.....	208,234	48.4	52.9	42.1
Total.....	430,588	100.0	100.0	55.4

## 2010 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class		Struc. Secur. (%)	Struc. Secur. (% of PHS)
				1-2 (%)	3-6 (%)		
Governments .....	15.9	0.6	2.2	100.0	...	...	...
Corporates.....	84.1	0.5	2.6	100.0	...	...	...
Total all bonds..	100.0	0.5	2.5	100.0	...	...	...

## CAPITALIZATION

The following text is derived from the report of QBE Re Group - US.

The group maintains adequate capitalization at the current rating level based on Best's Capital Adequacy Ratio (BCAR). Loss reserve leverage has increased in recent years but remains in line with composite norms while net premium leverage has grown to double the composite average through the group's steady, acquisition-led, growth in premium over the last several years. Accordingly, net underwriting leverage is elevated, relative to the composite, due to the higher premium leverage. The increase in underwriting leverage measures primarily reflects the increase in business produced by QBE FIRST. In addition, the group has been successful in accessing new growth opportunities in the primary market, largely focusing on program books of business. Leverage measures will likely continue to be impacted by strategic repositioning as the group incorporates the business from its most recent acquisitions, specifically those completed in 2011. The capital adequacy of the group acknowledges the capital contributions provided by QBE, evidencing a long history of explicit parental support.

Capital generation from operations has been uneven during the last five years, largely driven by underwriting results, and impacted in certain years by capital contributions and/or dividends paid to the parent company. Management anticipates future surplus growth to be generated through operations with parental support, as necessary, to fund planned growth strategies. Ultimately, A.M. Best expects the group to sustain its capital adequacy by generating favorable operating returns, considering the historical profitability of the Balboa and QBE FIRST books of business, and not having to depend on parental contributions.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth					PHS Growth (%)
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	
2006	2,289	47	...	-939	1,396	5.4
2007	2,220	206	-1,000	-858	568	2.1
2008	-2,129	-1,499	113,000	578	109,949	391.9
2009	3,963	170	...	-2,222	1,911	1.4
2010	17,154	-172	75,000	-6,181	85,800	61.3
5-Yr	23,495	-1,248	187,000	-9,622	199,625	...

## QUALITY OF SURPLUS (\$000)

Period Ending	—% of PHS—			—Dividend Requirements—		
	Year- End PHS	Cap. Stock/ Contrib.		Stock- holder Divs	Div. To POI (%)	Div. To Net Inc. (%)
		Cap.	Other			
2006	27,486	93.7	...	6.3	...	...
2007	28,054	91.8	...	8.2	-1,000	45.1
2008	138,003	100.5	...	-0.5	...	...
2009	139,914	99.2	0.9	0.0	...	...
2010	225,715	94.7	0.5	4.8	...	...

## LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2006	0.2	0.2	1.0	1.1	0.6	1.0	2.3	3.5
2007	0.2	0.3	0.8	0.9	0.5	0.9	2.0	2.9
2008	0.2	0.1	0.8	0.8	0.5	1.0	2.0	3.0
2009	1.9	0.5	3.4	6.4	0.4	0.9	1.7	2.6
2010	1.2	0.4	2.5	4.8	0.4	1.0	1.8	2.6

Current BCAR: 157.9

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	—DPW—		—GPW—		—NPW—		—NPE—	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2006	30,617	-27.1	30,617	-27.1	5,415	-30.2	6,970	-2.2
2007	26,541	-13.3	26,541	-13.3	4,929	-9.0	5,334	-23.5
2008	150,391	466.6	150,391	466.6	31,110	531.2	13,137	146.3
2009	528,402	251.4	528,402	251.4	270,689	770.1	185,730	999.9
2010	611,235	15.7	611,235	15.7	264,245	-2.4	251,125	35.2
5-Yr CAGR	...	70.8	...	70.8	...	102.5	...	103.9
5-Yr Chg	...	999.9	...	999.9	...	999.9	...	999.9

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Develop. to PHS (%)	Unpaid Reserves to NPE (%)	Unpaid Reserves @12/10	Unpaid Res. to Develop. (%)
2006	6,105	8,144	33.4	7.4	116.8	9,416	115.6
2007	6,884	11,932	73.3	18.0	223.7	12,941	108.5
2008	9,752	17,637	80.9	5.7	134.2	18,886	107.1
2009	68,251	69,902	2.4	1.2	37.6	39,075	55.9
2010	97,687	97,687	...	...	38.9	97,687	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Unpaid Reserves to @12/10	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2006	2,904	3,627	24.9	1,363	62.2	105.8
2007	2,192	5,354	144.3	3,525	116.1	153.5
2008	5,287	8,694	64.4	5,945	78.6	111.7
2009	48,936	46,654	-4.7	20,189	37.8	78.6
2010	58,612	58,612	...	58,612	34.2	89.4

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite		
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)
2006	5,227	17.7	8.4	19.0	45.8	90.7	123.5
2007	3,282	18.6	5.5	11.7	45.5	70.5	95.7
2008	3,367	20.7	1.6	2.4	46.2	74.7	99.3
2009	421,386	51.2	88.6	301.2	44.1	63.5	86.0
2010	532,522	43.2	82.2	235.9	51.1	57.2	78.4

## 2010 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	48	1,209	249	723	2,229
Foreign Affiliates.....	28,637	45,486	78,346	-1,372	151,097
US Insurers .....	3,793	7,871	14,323	253	26,240
Other Non-US.....	1,230	4,134	2,874	-120	8,118
Total (ex US Affils) .....	33,660	57,491	95,543	-1,239	185,455
Grand Total.....	33,708	58,700	95,792	-516	187,684

\* Includes Commissions less Funds Withheld

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## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2006	...	...	...	12.3	12.3	...	1.0	18.5
2007	...	...	...	17.7	17.7	...	0.9	17.1
2008	...	...	...	2.2	2.2	...	2.7	10.3
2009	...	...	...	2.8	2.8	...	3.5	15.3
2010	...	...	...	...	...	...	3.2	17.0

## LIQUIDITY

The following text is derived from the report of QBE Re Group - US.

The group's current and overall liquidity measures closely approximate industry composite averages. The overall liquidity position is supported by the generation of positive operating cash flows. Operating cash flow has increased substantially in recent years because of increased premium collected. The group maintains a conservative investment philosophy which allocates a substantial amount of the overall portfolio to cash and cash equivalents resulting in an above average quick liquidity ratio. The portfolio's average fixed-income maturity is relatively short at approximately three years. Additionally, the group's claims payment pattern is also short given the profile of its health, property and short-tail casualty business.

## LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2006	233.2	266.5	232.2	17.2	36.4	142.1	160.6	12.5
2007	286.1	309.5	267.6	20.1	33.4	148.5	167.5	10.6
2008	415.2	451.8	282.7	16.0	30.2	143.7	165.3	9.5
2009	101.6	137.6	169.6	13.6	34.9	151.8	172.6	8.7
2010	101.7	146.2	177.3	5.7	37.7	150.6	169.8	8.0

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)	Net Cash Flow (%)
2006	3,341	3,575	4,664	162.2	158.1	158.2	159.9	159.9
2007	379	982	-5,217	108.8	119.3	146.5	144.2	144.2
2008	1,254	1,774	106,654	110.1	114.1	121.5	133.1	133.1
2009	118,002	117,085	20,156	228.5	221.9	103.3	126.5	126.5
2010	112,182	103,513	61,547	156.3	149.4	141.0	156.9	156.9

## HISTORY

This company was incorporated on August 28, 2002 under the laws of North Dakota. The company is a wholly-owned subsidiary of QBE Insurance Corporation. Paid up capital of \$3,500,000 consists of 500,000 common shares at \$7.00 par value each.

## MANAGEMENT

QBE Specialty Insurance Company is a wholly-owned subsidiary of QBE Insurance Corporation. Effective September 30, 1997, the administration of the QBE Insurance Corporation's affairs was assumed by QBE Reinsurance Corporation, the company's immediate parent.

**Officers:** Chief Executive Officer, John Rumpler; President, Stephen Fitzpatrick; Chief Financial Officer, Christopher C. Fish; Chief Underwriting Officer, James J. Fiore; Chief Risk Officer, Ming-I Huang; Senior Vice President and Chief Actuary, Nicholas Pastor; Senior Vice Presidents, Lance Albright, Edward Ashby, Mark Benson, Fabian Burstyn, Daniel J. Czabaj, James Henry, Nancy L. Kelly, Thomas Leonardo, Mitchell D. Luedtke, Celso M. Moreira, Stephen Morgan, Thomas A. Parker, Joel Yatskowitz; Secretary and Chief Legal Officer, Peter T. Maloney (Corporate).

**Directors:** Harvey Bazaar, Rod Farrell, James J. Fiore, Christopher C. Fish, Stephen Fitzpatrick, Alan J. Levin, Vince McLenaghan, Robert Mezzasalma, Francis M. O'Halloran, Christen Peter, Anthony R. Przybyszewski, John Rumpler.

## REGULATORY

An examination of the financial condition is being made as of December 31, 2007, by the insurance department of North Dakota. The 2010 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, Senior Vice President & Chief Actuary.

**Territory:** The company is licensed in North Dakota. It also operates on a surplus lines or non-admitted basis in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NY, NC, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

## REINSURANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US is both a provider and buyer of reinsurance protection. Reinsurance protection is purchased for the entire QBE the Americas Division as a whole. From year to year, the program purchased is modified based on the division's needs.

## BALANCE SHEET

### ADMITTED ASSETS (\$000)

	12/31/10	12/31/09	'10%	'09%
Bonds	222,354	126,655	42.7	36.9
Common stock	...	3,917	...	1.1
Cash & short-term invest	207,028	145,481	39.8	42.4
Total invested assets	429,382	276,053	82.5	80.4
Premium balances	67,223	54,331	12.9	15.8
Accrued interest	1,207	1,070	0.2	0.3
All other assets	22,426	11,994	4.3	3.5
Total assets	520,237	343,449	100.0	100.0

### LIABILITIES & SURPLUS (\$000)

	12/31/10	12/31/09	'10%	'09%
Loss & LAE reserves	98,462	68,578	18.9	20.0
Unearned premiums	118,659	105,539	22.8	30.7
Conditional reserve funds	1,064	992	0.2	0.3
All other liabilities	76,337	28,426	14.7	8.3
Total liabilities	294,523	203,535	56.6	59.3
Capital & assigned surplus	214,798	139,976	41.3	40.8
Unassigned surplus	10,917	-62	2.1	0.0
Total policyholders' surplus	225,715	139,914	43.4	40.7
Total liabilities & surplus	520,237	343,449	100.0	100.0

## SUMMARY OF 2010 OPERATIONS (\$000)

Statement of Income	12/31/10	Funds Provided from Operations	12/31/10
Premiums earned	251,125	Premiums collected	311,342
Losses incurred	64,886	Benefit & loss related pmts	44,994
LAE incurred	25,682	LAE & underw expenses paid	154,166
Underw expenses incurred	145,808	Net underwriting income	14,749
Net underwriting income	14,749	Net investment income	2,298
Net investment income	2,298	Other income/expense	106
Other income/expense	106	Pre-tax cash operations	113,742
Pre-tax oper income	17,154	Income taxes pd (recov)	10,230
Realized capital gains	207	Net oper cash flow	103,513
Income taxes incurred	7,424		
Net income	9,936		

# Best's Rating Report



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## Why is this *Best's*<sup>®</sup> Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Best's Financial Strength Ratings are assigned according to the following scale:

### Secure Best's Financial Strength Ratings

A++ and A+ . . . . .	Superior
A and A- . . . . .	Excellent
B++ and B+ . . . . .	Good

### Vulnerable Best's Financial Strength Ratings

B and B- . . . . .	Fair
C++ and C+ . . . . .	Marginal
C and C- . . . . .	Weak
D . . . . .	Poor
E . . . . .	Under Regulatory Supervision
F . . . . .	In Liquidation
S . . . . .	Rating Suspended

For the latest **Best's Financial Strength Ratings** and *AMB Credit Reports* visit the A.M. Best web site at [www.ambest.com](http://www.ambest.com). You may also obtain *AMB Credit Reports* by calling our Customer Service department at +1-908-439-2200, ext. 5742. To expedite your request, please provide the company's identification number (AMB #).